

Economic and Revenue Outlook

Presented to
Seattle Economics Council

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Seattle, Washington



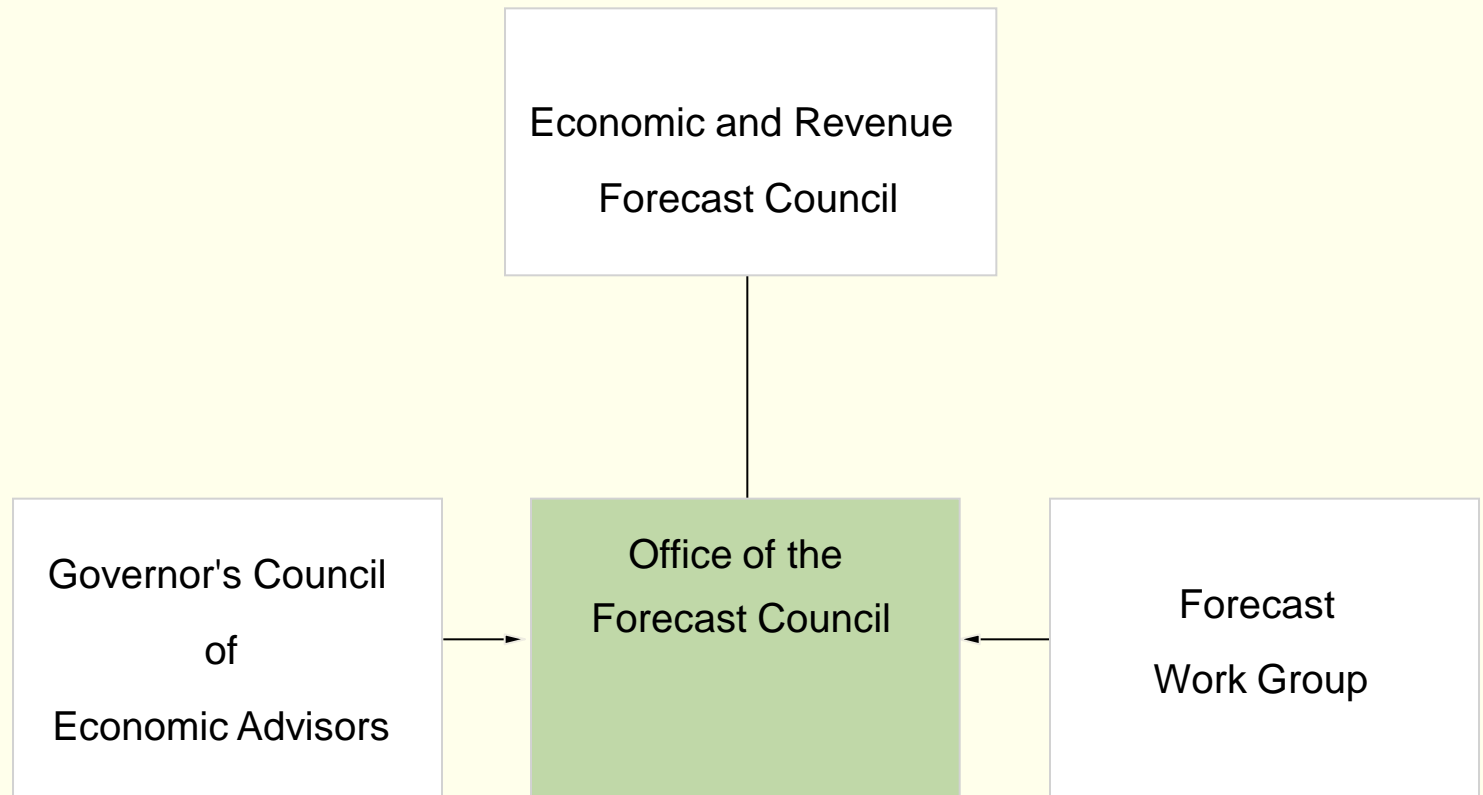
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Forecast Oversight

ERFC

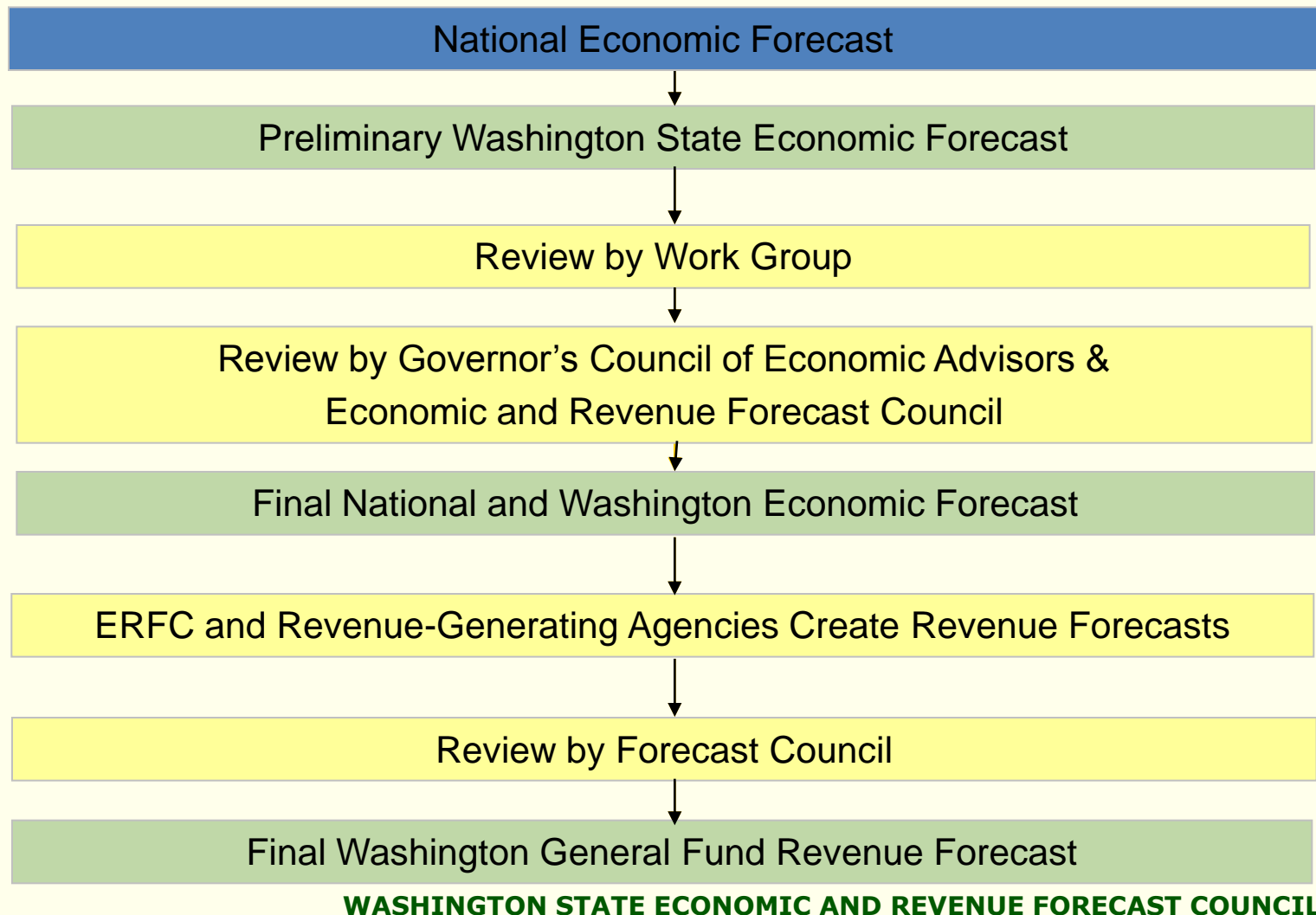
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is based upon the Global Insight model



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Forecast Credibility

Governance structure has successfully removed forecast process from political process

- Council structure creates forecast responsibility and buy-in from “five corners”
- Single mission – produce quarterly forecasts
 - No policy analysis or advocacy
 - Staff role as apolitical experts on state, national economy
- Recognition that nonpartisan revenue forecast promotes budget stability and improved bond ratings



Forecast summary

- Forecasted growth in wages, personal income and employment is somewhat lower than historical averages
- Forecasted revenue growth is also lower than historical averages, partially due to low forecasted rates of inflation

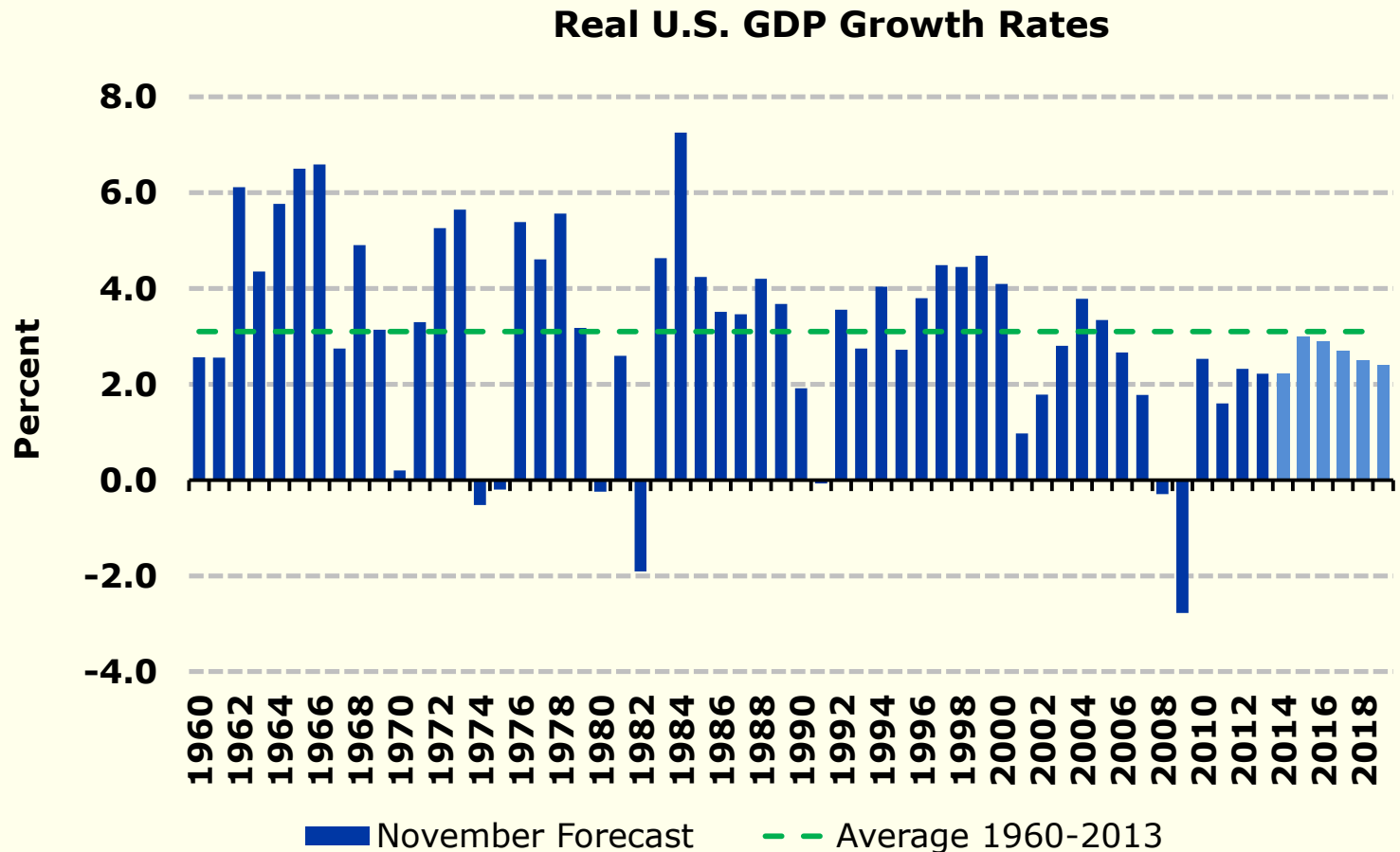


Economic news continues to suggest risks to forecast

- Upside:
 - Declining initial unemployment claims
 - Net monthly employment gains average over 200,000 jobs this year
 - Lower gasoline prices
 - Lower mortgage rates
- Downside:
 - Wage growth slow to recover
 - Lackluster housing activity
 - Slowing Chinese, Japanese, European economies
 - Instability in Middle East, Ukraine/Russia



Real GDP is forecasted to grow close to its average rate in 2015 but at a slower pace through 2019

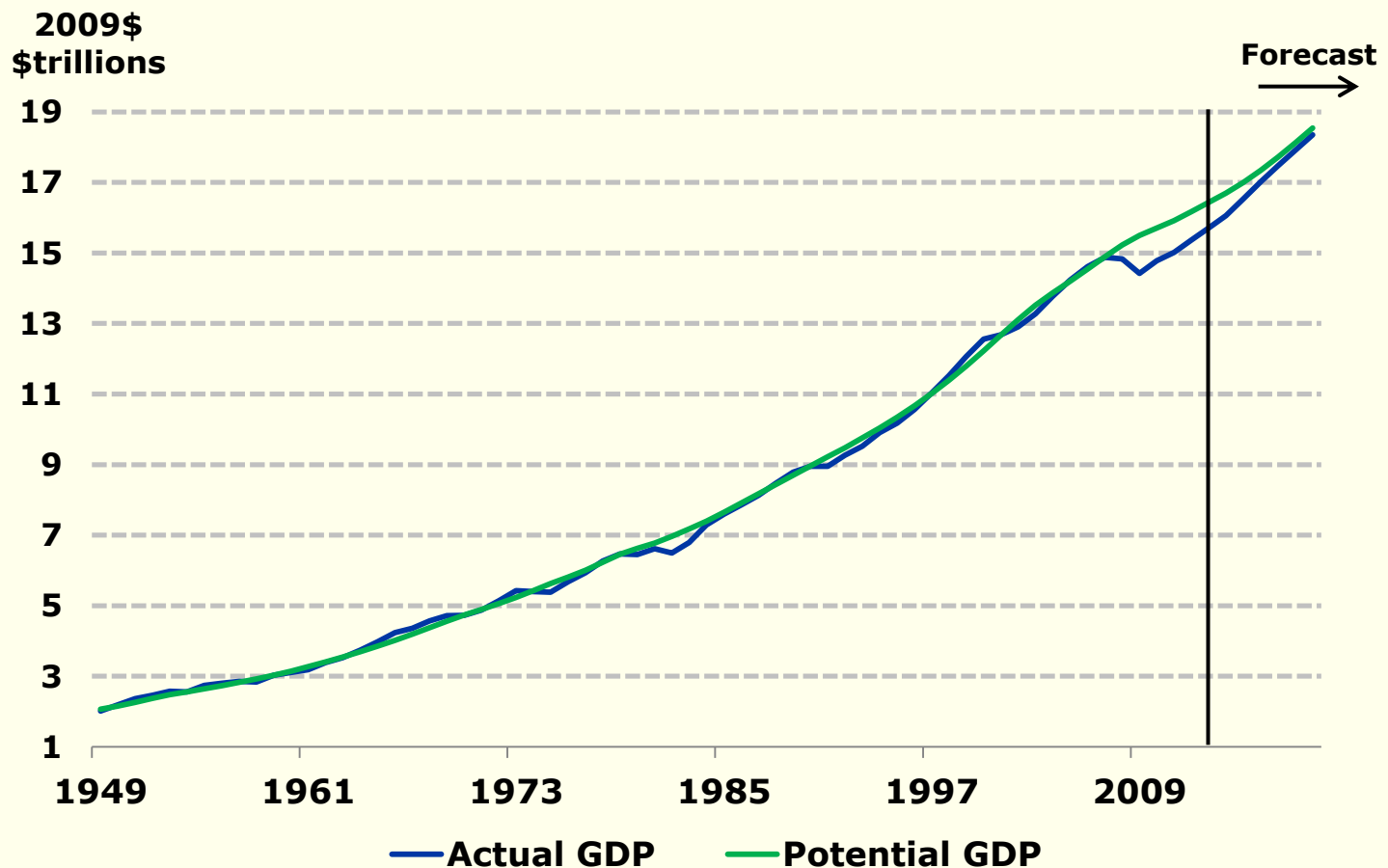


Source: ERFC November 2014 forecast; historical data through 2013

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Great Recession was a notable deviation from potential economic activity

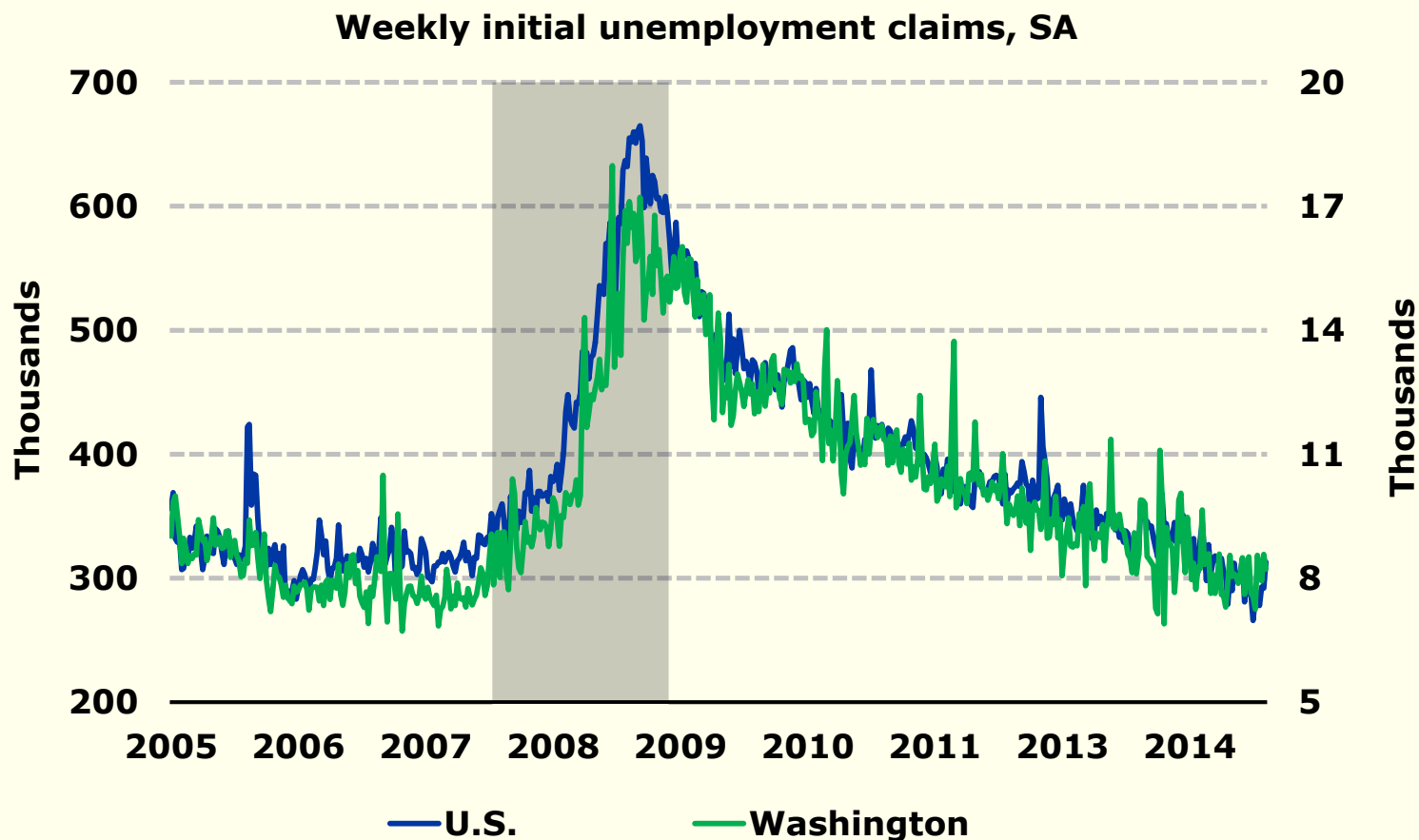


Sources: CBO August 2014, ERFC November 2014; forecast 2014 - 2019

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Unemployment claims are at pre-recession levels

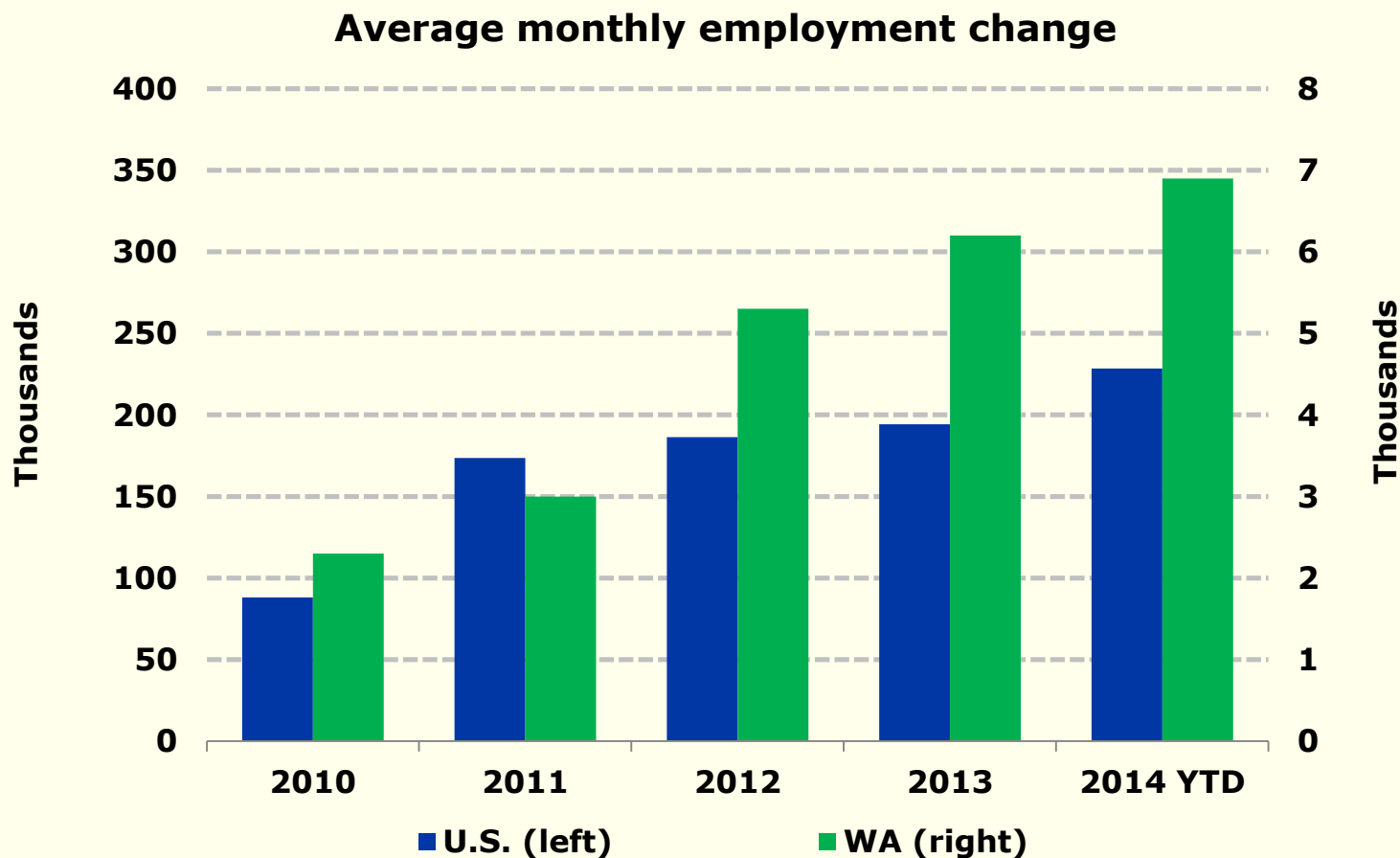


Source: U.S. Dept. of Labor; data through November 22, 2014

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Job creation continues to strengthen



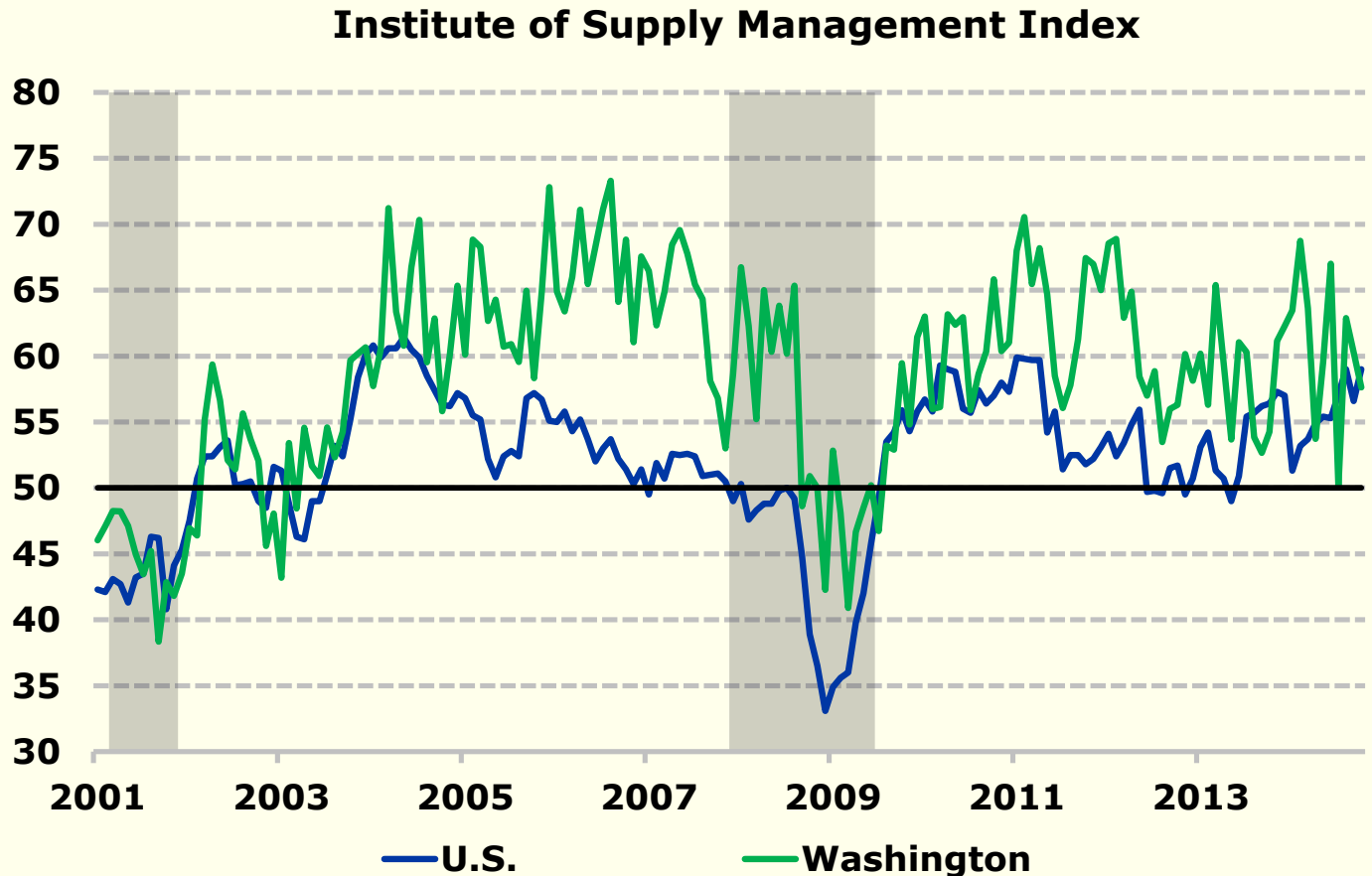
Source: Bureau of Labor Statistics, data through October 2014

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Manufacturing activity continues to expand both nationally and in the state

An index greater than 50 implies growth

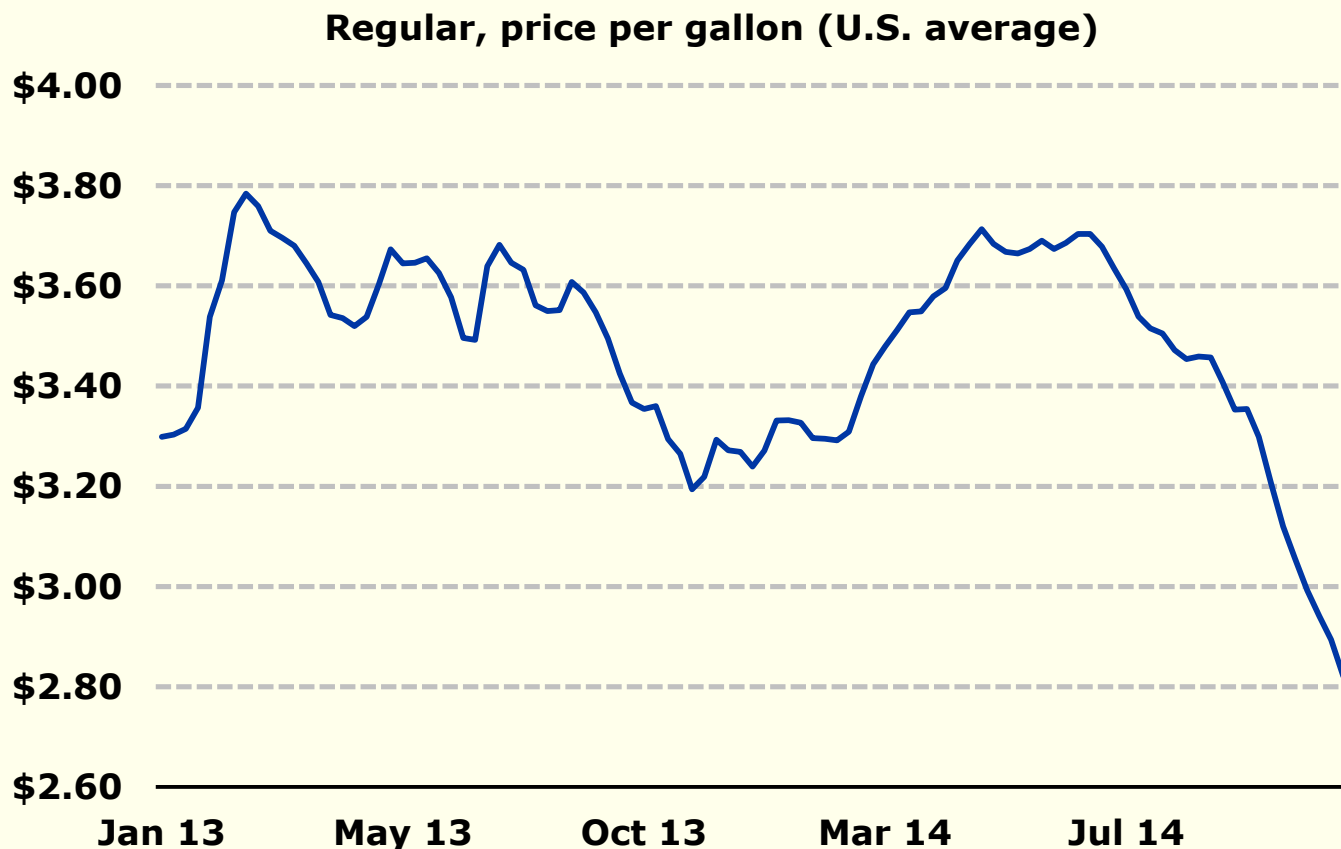


Source: Institute of Supply Management; data through October 2014

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Gasoline prices are falling

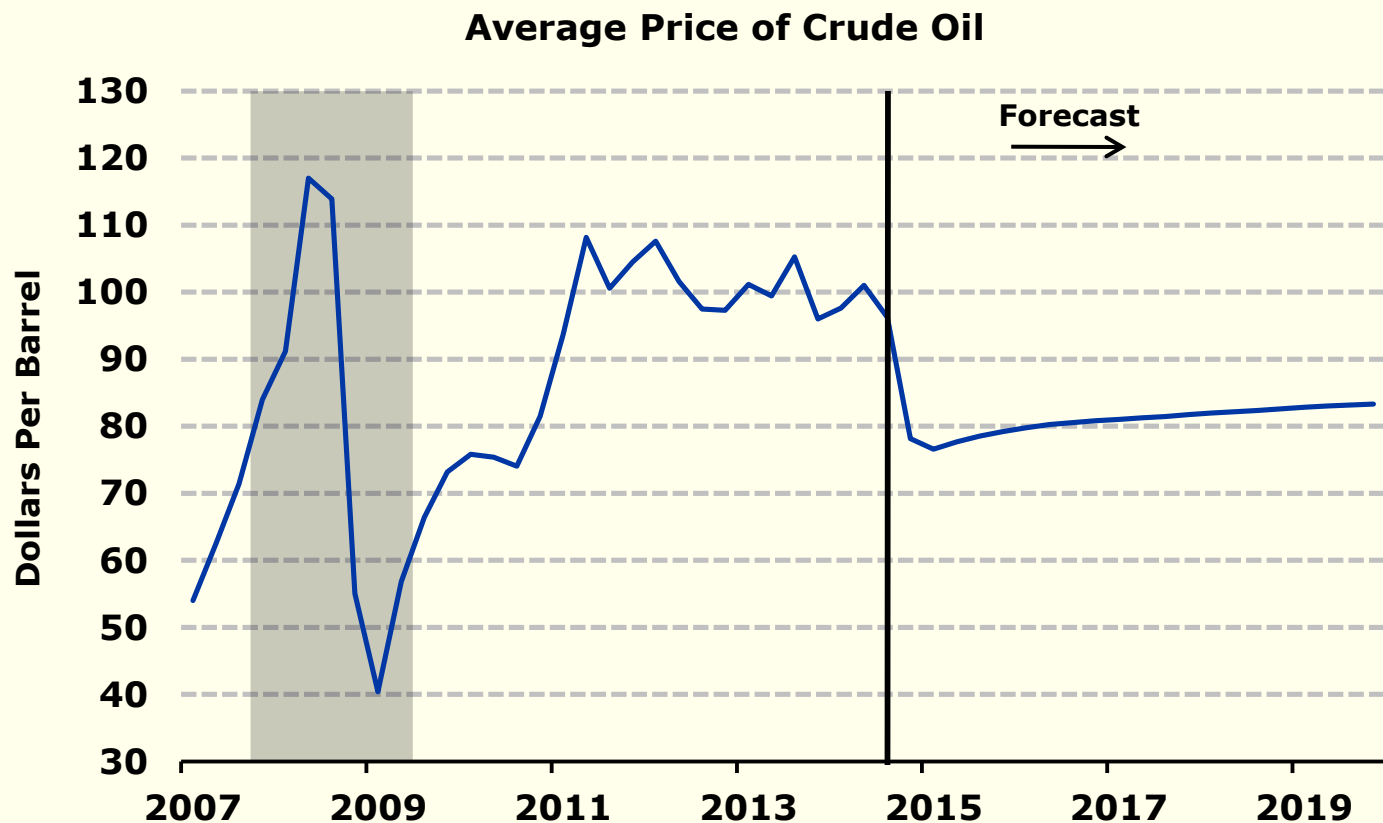


Source: Dept. of Energy, weekly data through November 24, 2014

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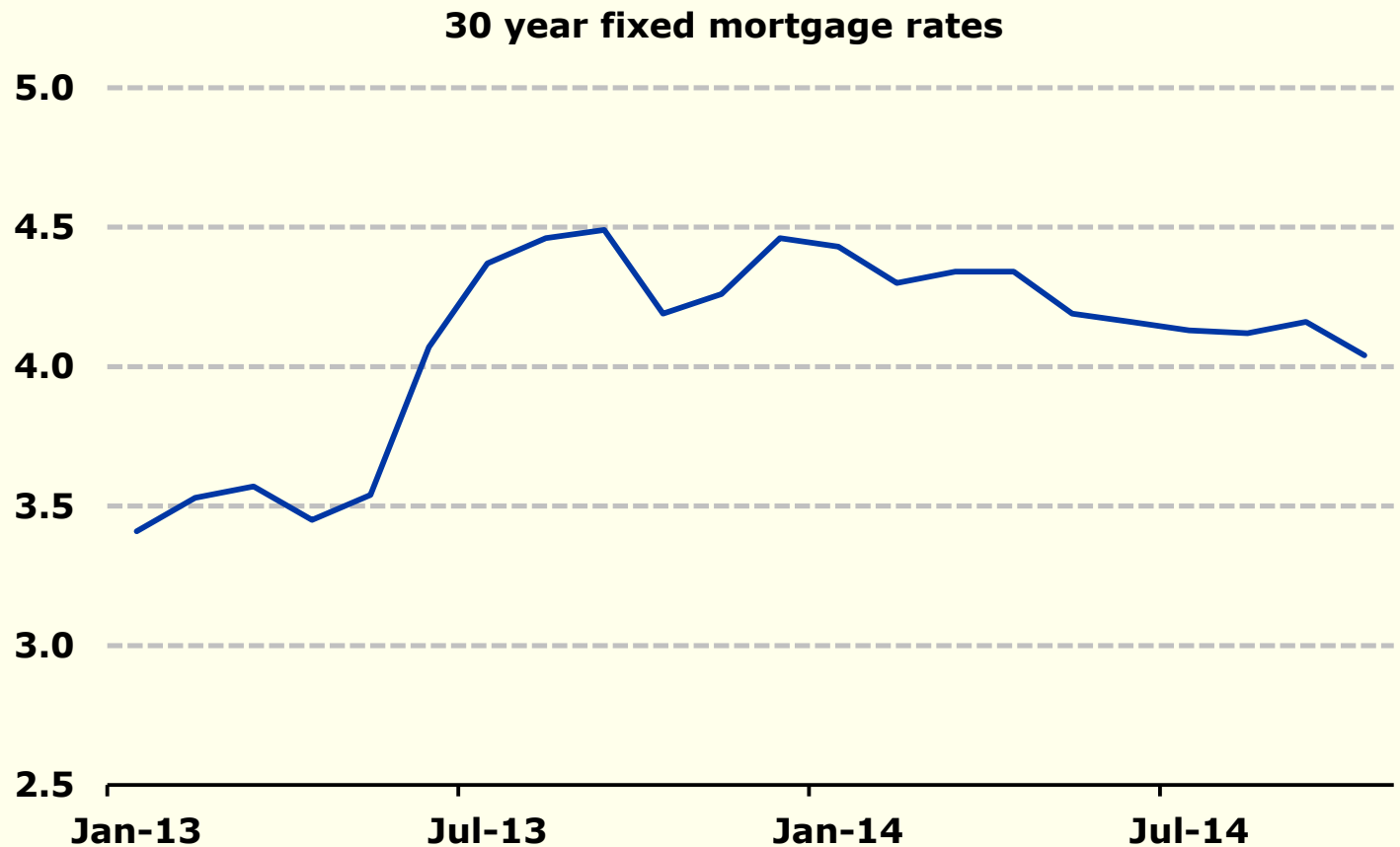


Oil prices are forecasted to recover slowly from recent decline





Mortgage rates have trended down slightly since January

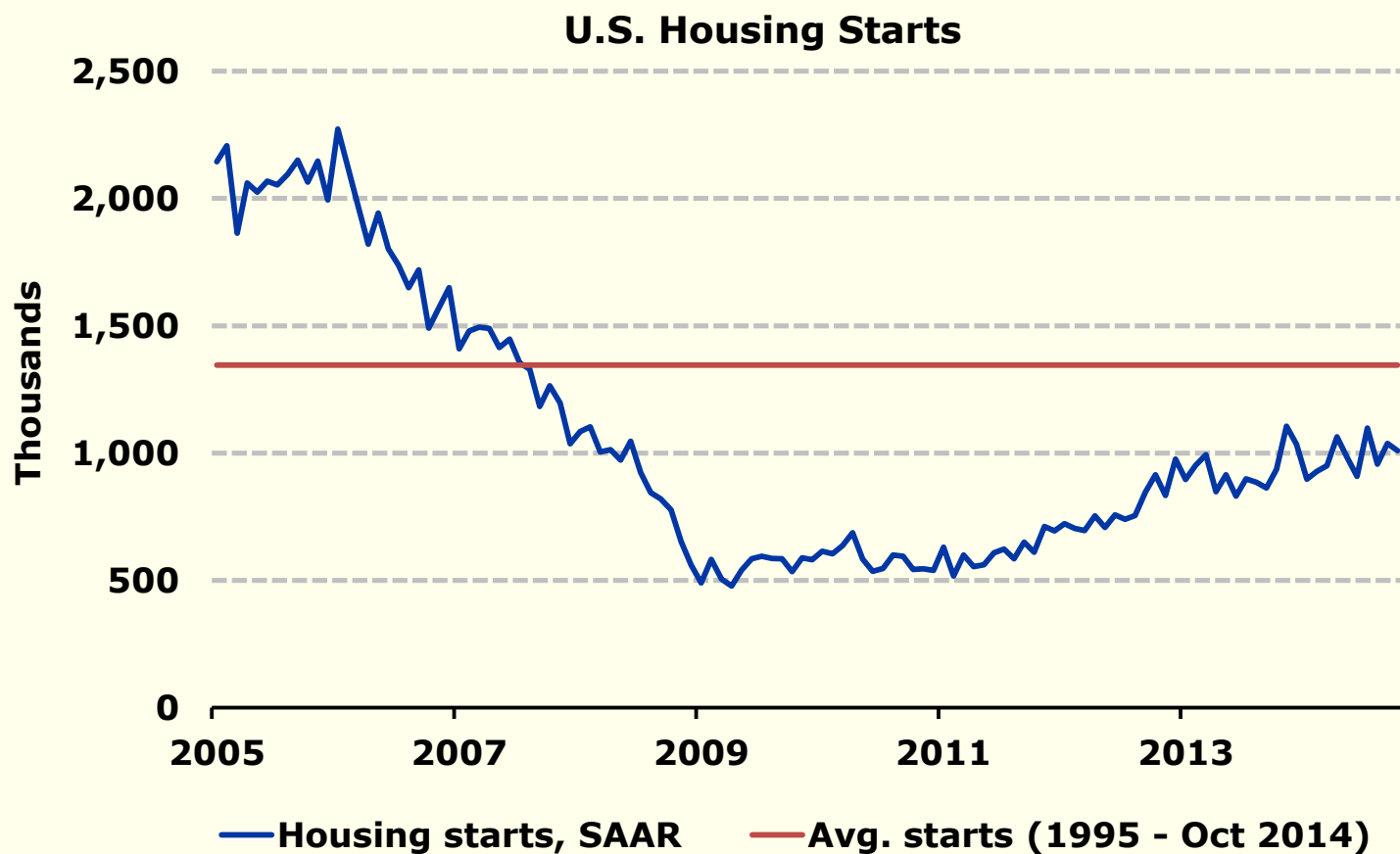


Source: Freddie Mac , data through October 2014

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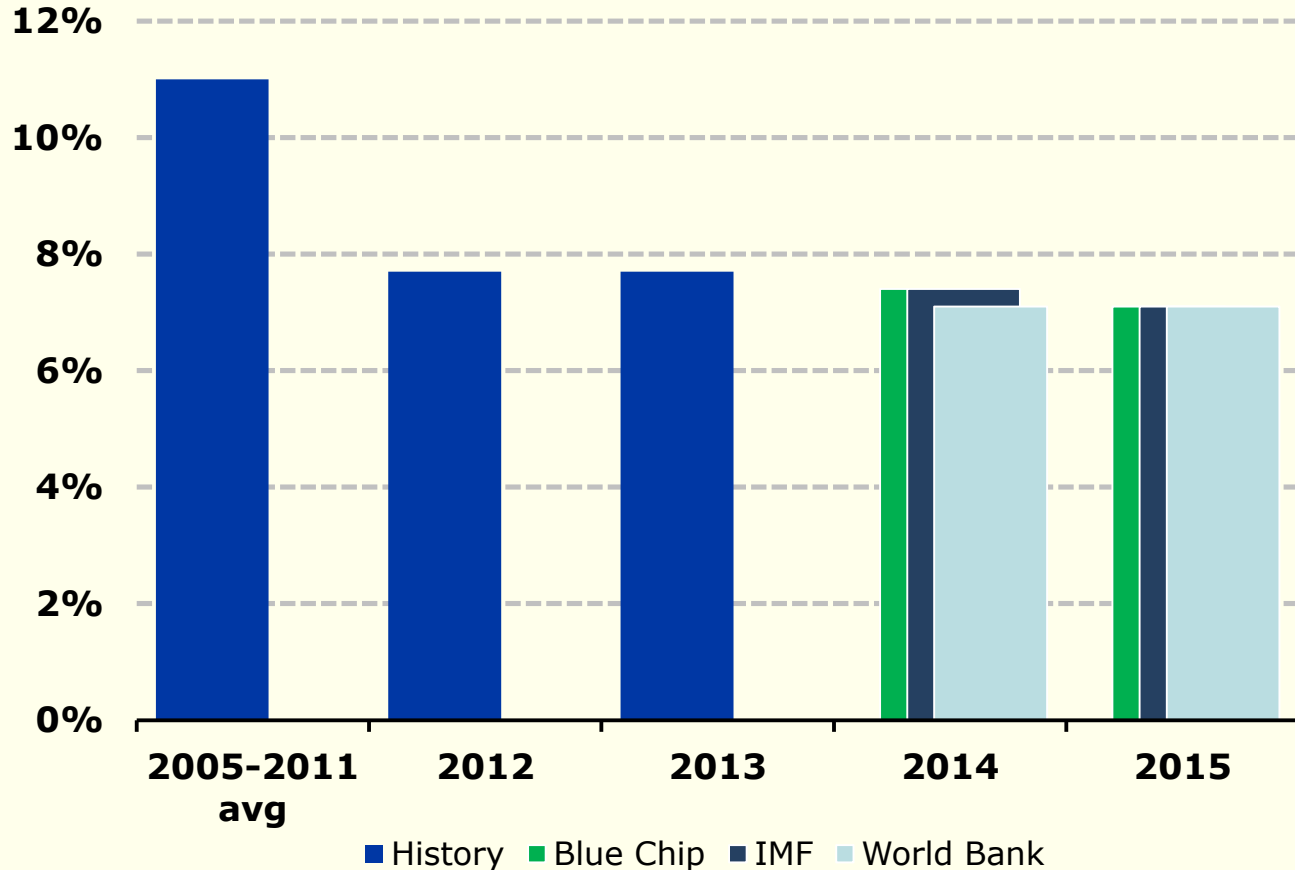


Housing starts are trending up but remain below historic average





China's 2014 & 2015 GDP growth expected to be below 2013 rate



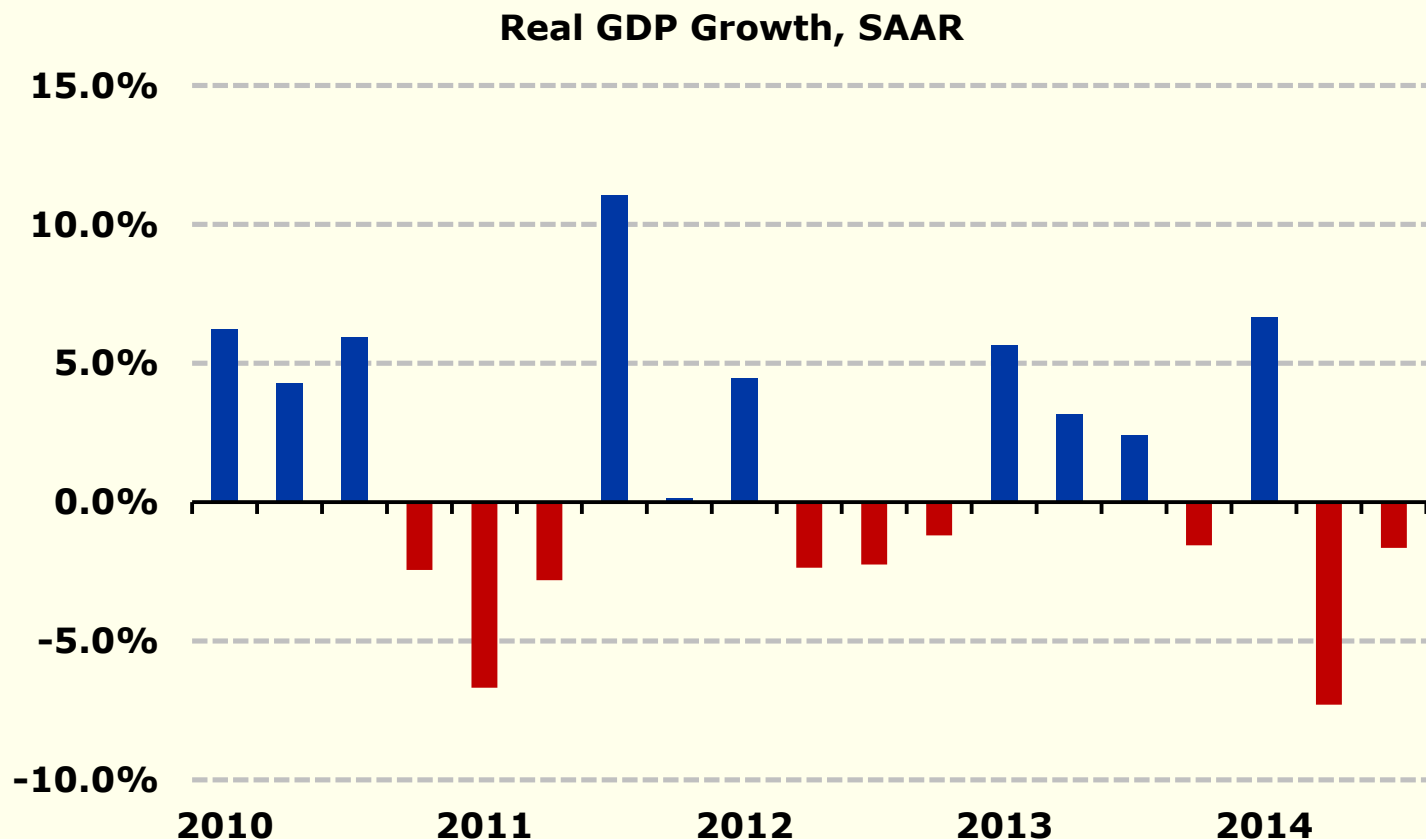
Source: Blue Chip, IMF; data and forecasts through October 2014; World Bank, June 2014 forecast

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Japan's GDP growth has been negative in three of the last four quarters

The International Monetary Fund forecasts real GDP growth of 0.8% for 2015

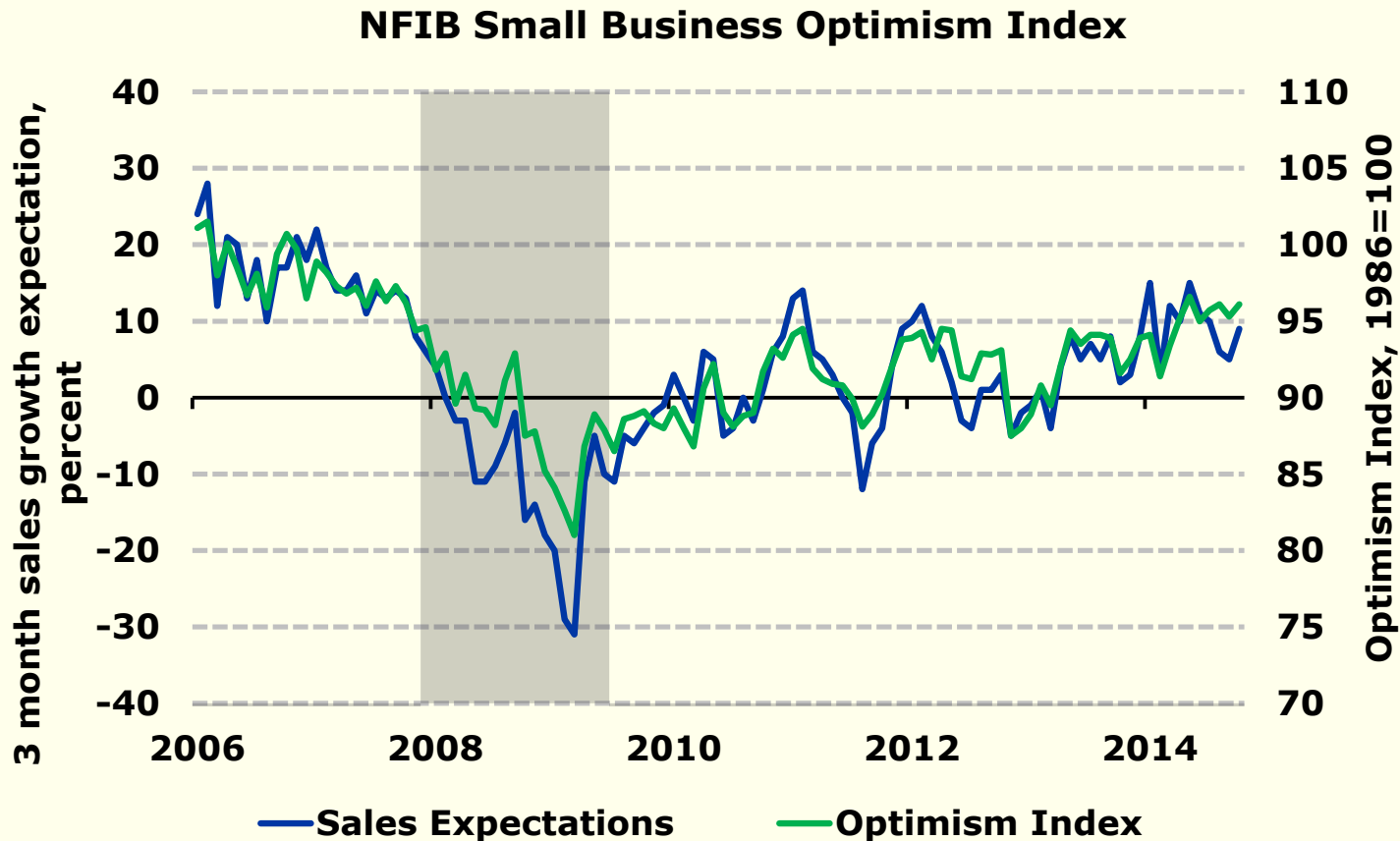


Source: Japan Cabinet Office, data through 2014Q2

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Small business optimism and sales expectations remain below pre-recession levels



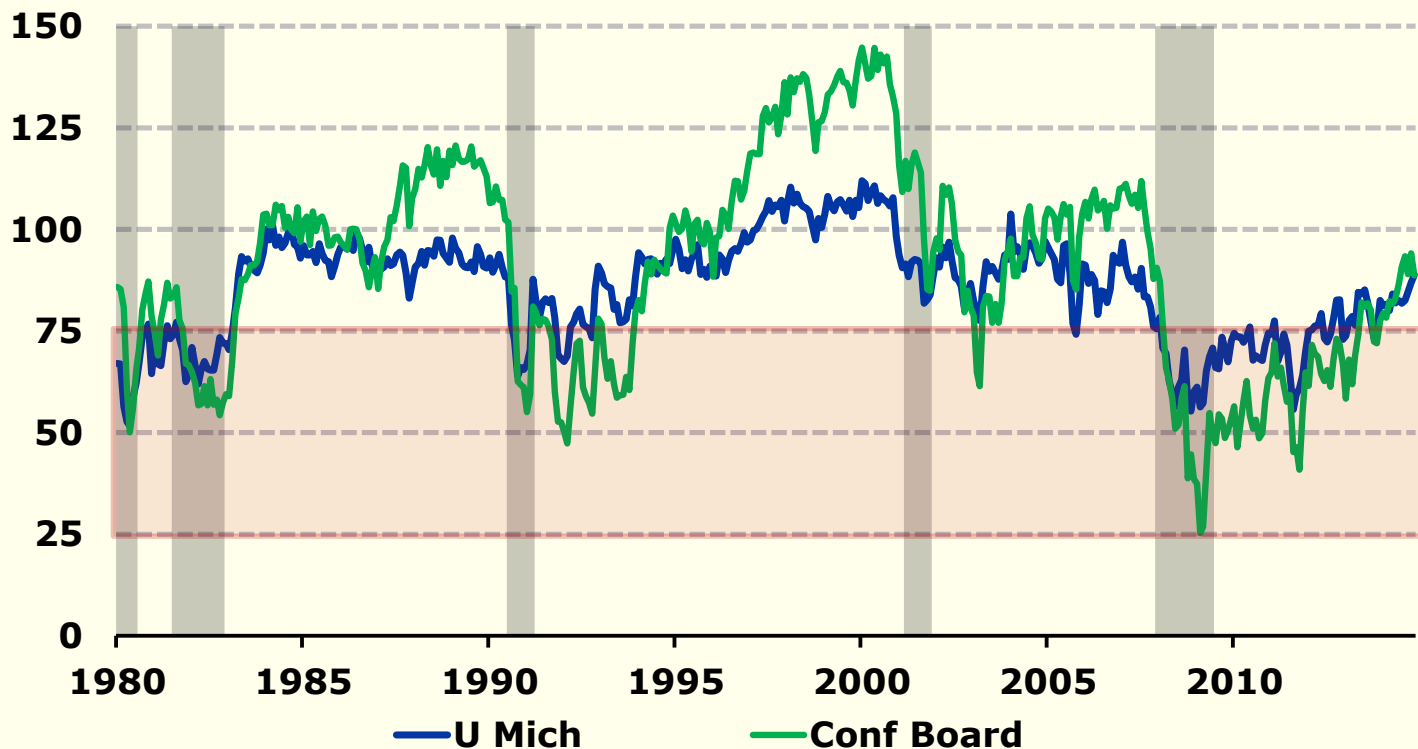


Consumer confidence improving but also below pre-recession levels

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

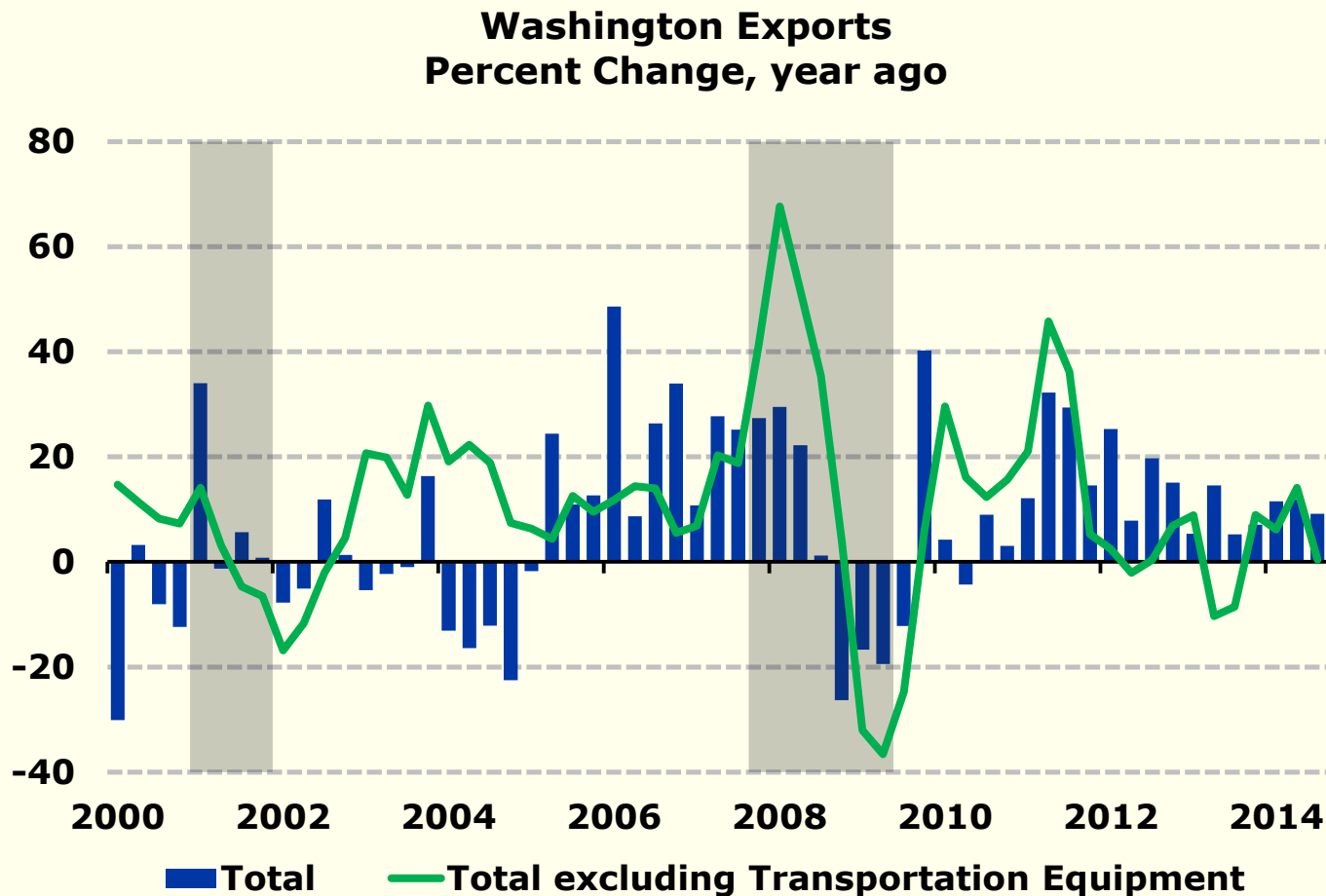


Source: University of Michigan; Conference Board, data through November 2014

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Non-transportation equipment export growth remains weak

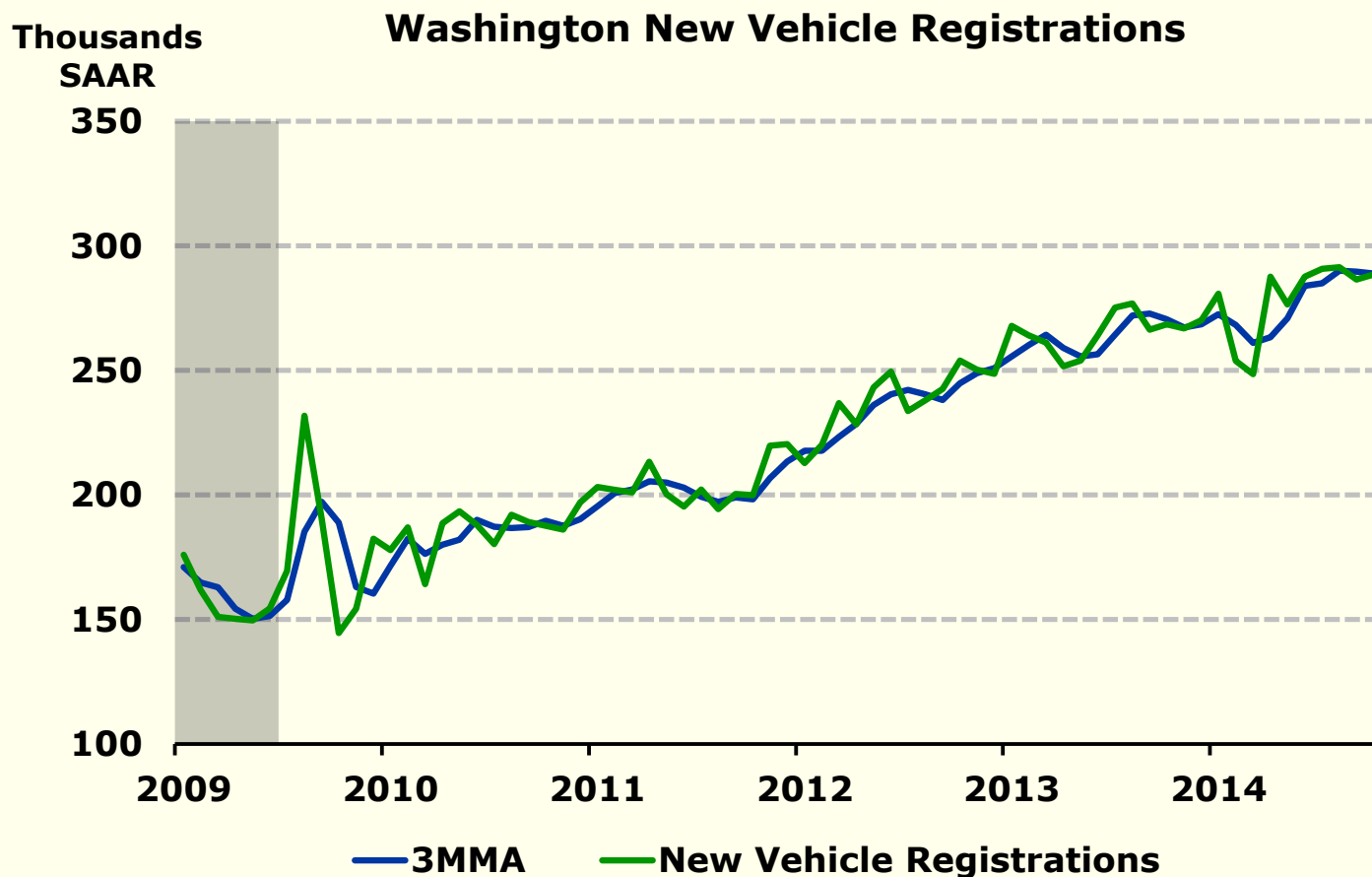


Source: Wiser Trade Data; through 2014Q3

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Washington new vehicle registrations still growing

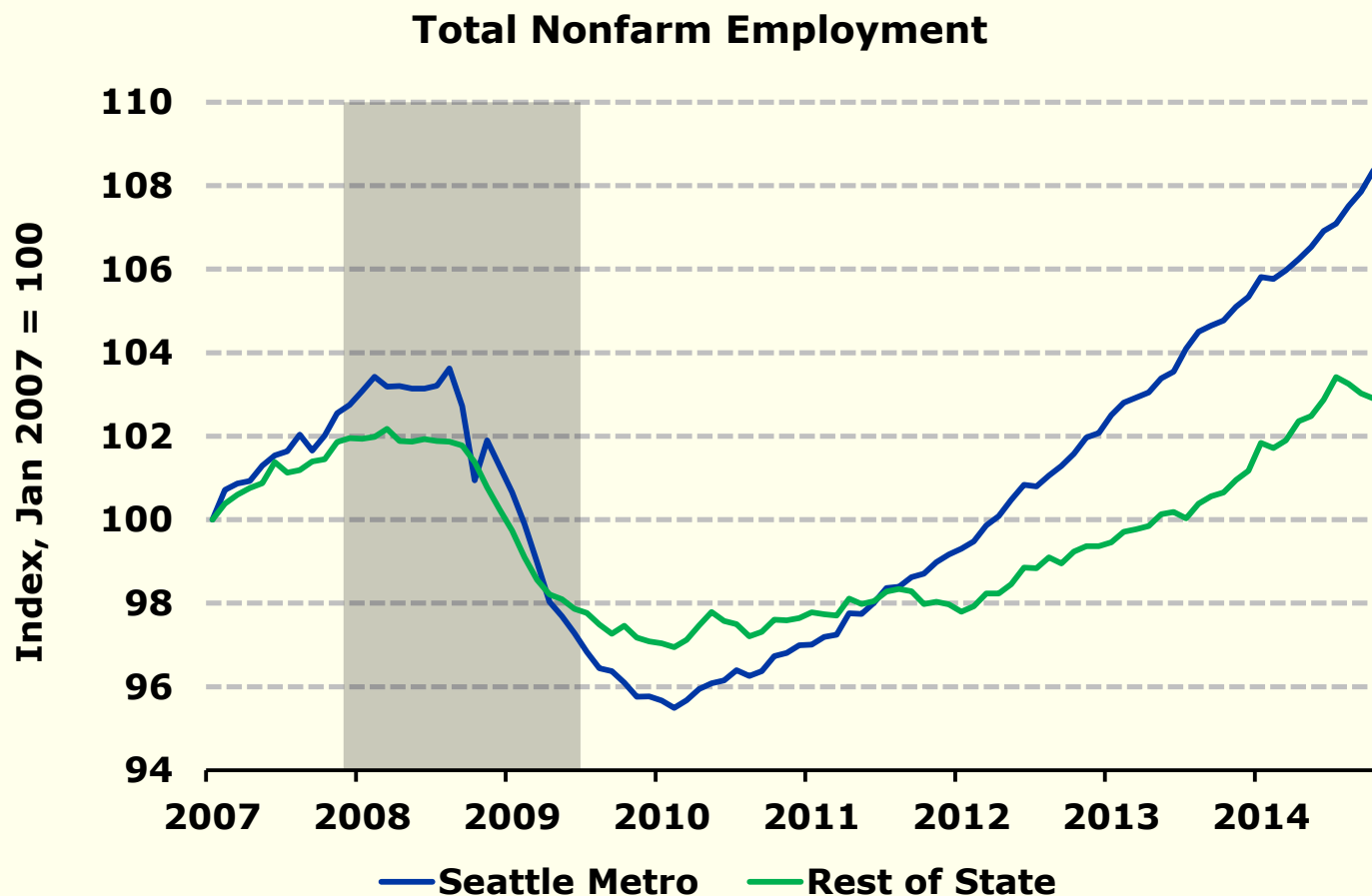


Source: Dept. of Licensing, ERFC; data through October 2014

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Seattle area employment is growing much faster than the rest of the state

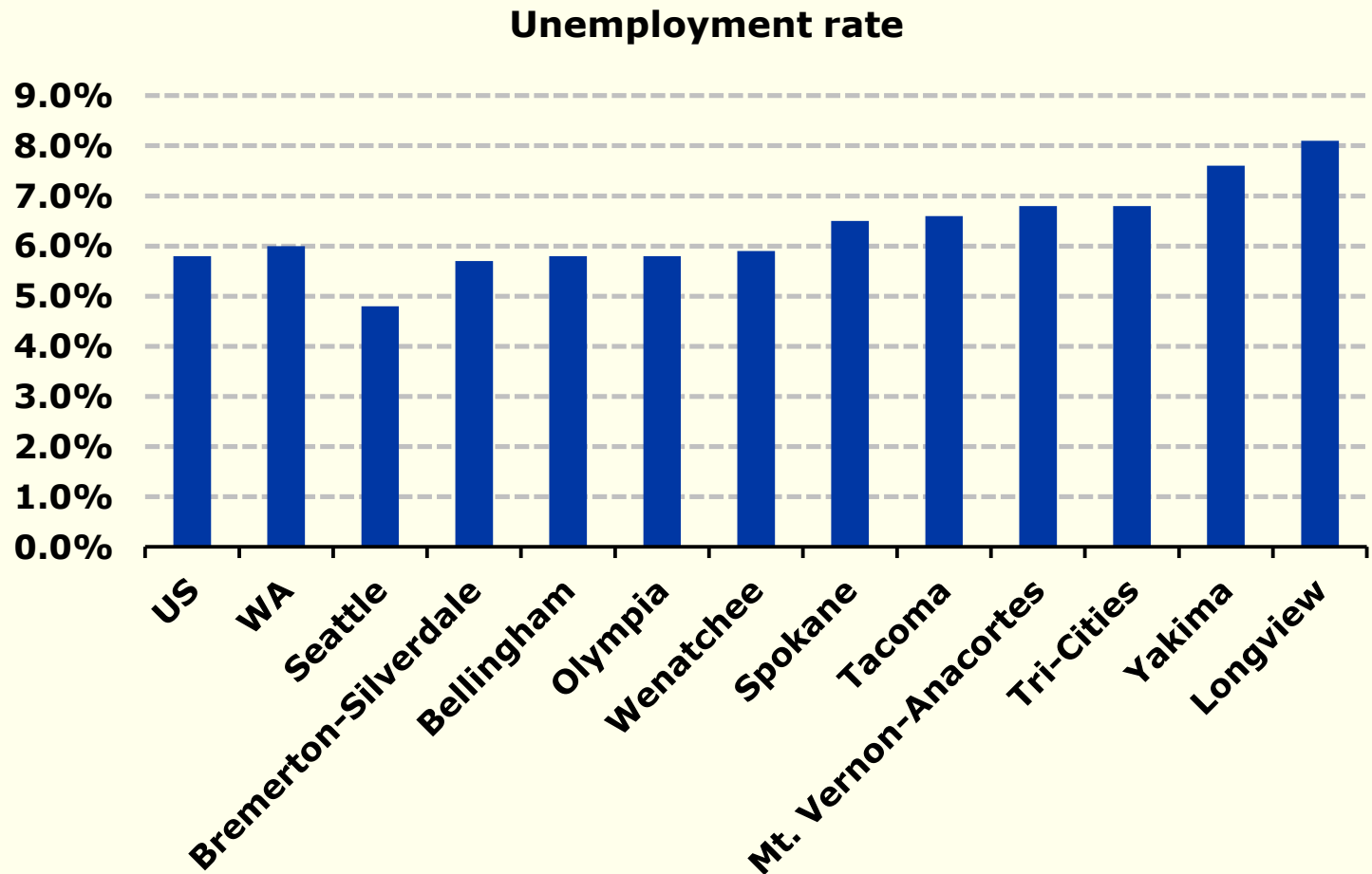


Source: Employment Security Department, ERFC; data through October 2014

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Seattle continues to have the lowest unemployment rate among state metropolitan areas



Source: Employment Security Dept., October 2014 data

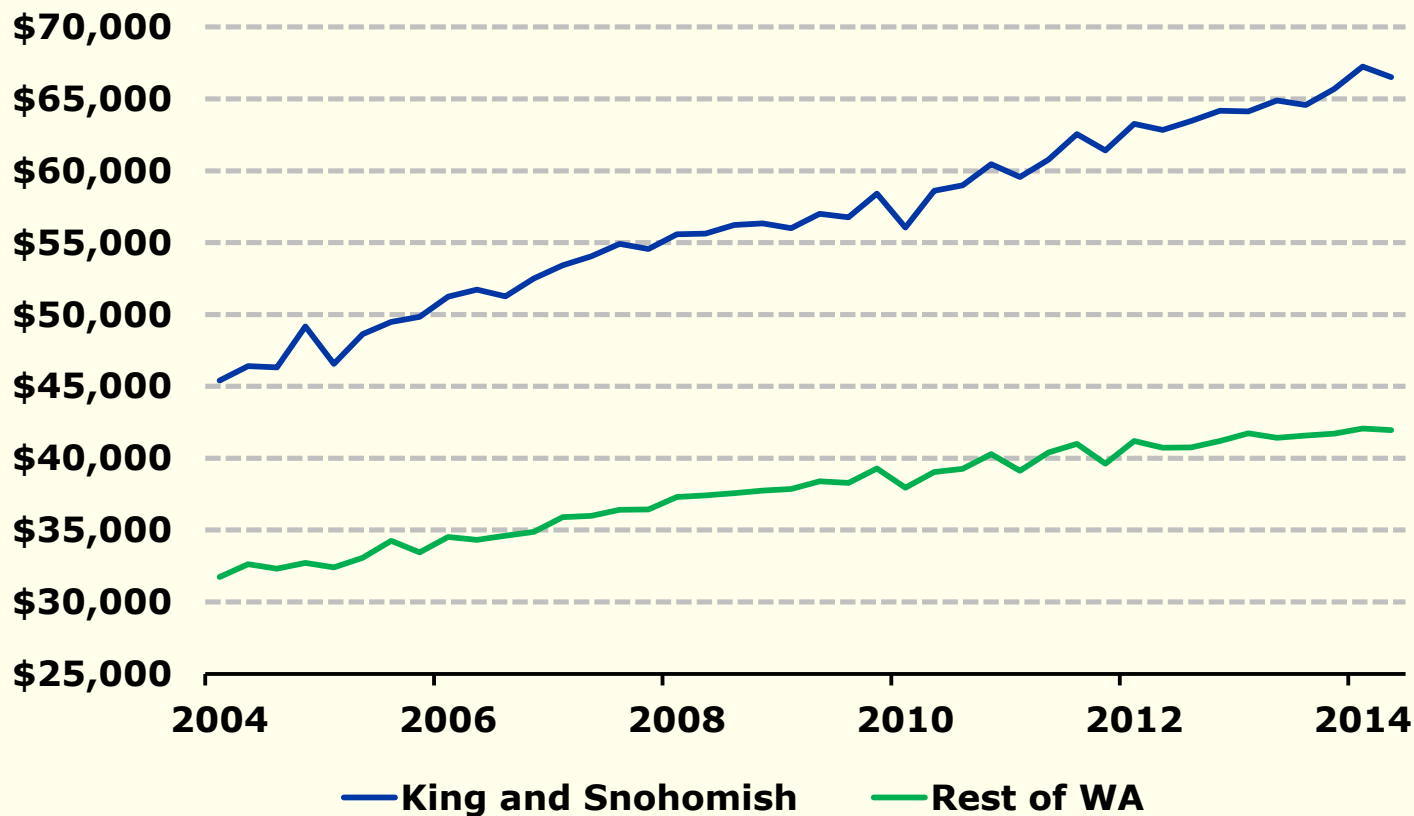


Average annual wages, Seattle metro area and rest of state

Growth
between
2004Q1 and
2014Q2:

King &
Snohomish =
46%

Rest of WA =
32%



Source: BLS, ERFC; data through 2014 Q2

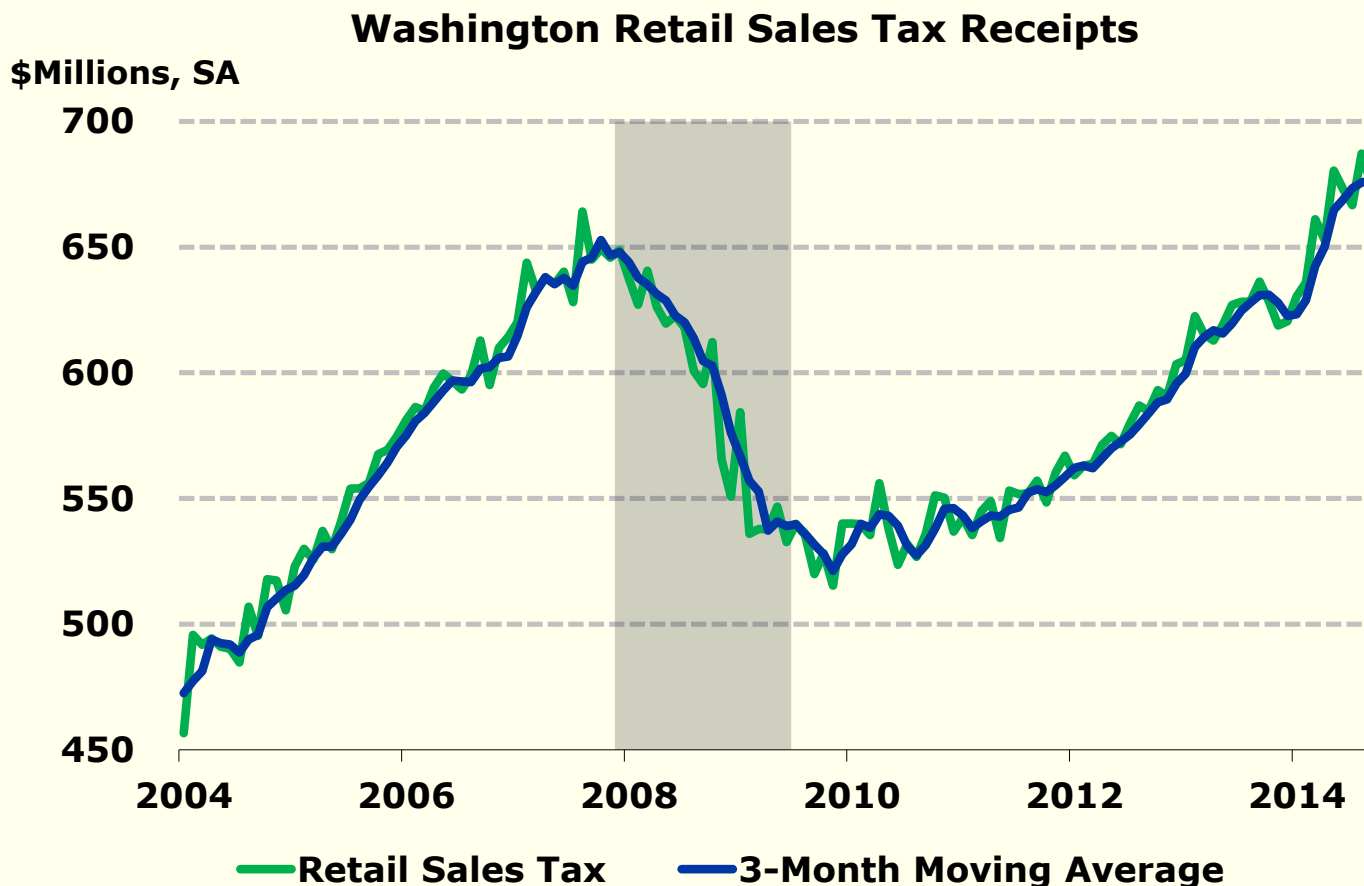
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Sales tax growth has been strong in the last two quarters

Adjusted sales tax collections were up 8.7% year-over-year for 2nd quarter activity and 8.4% for 3rd quarter activity.

Growth has been strong in construction, auto sales, and building materials.



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through September 2014 preliminary activity

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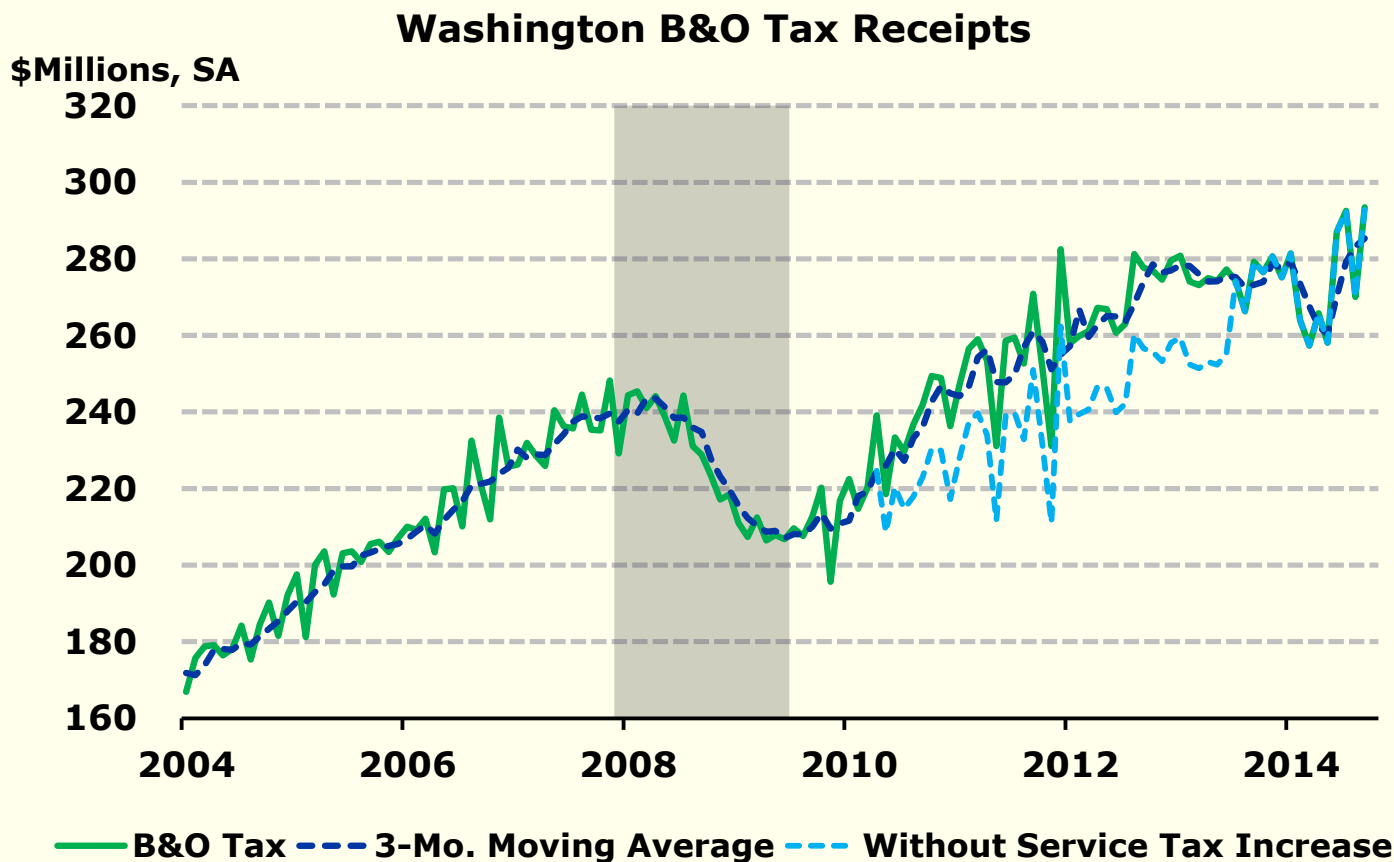
B&O tax growth is has been uneven

Adjusted B&O tax collections were up 6.5% year over year for third quarter activity.

B&O tax growth will be slowed somewhat in the next two quarters due to the effects of lower oil prices on the gross receipts of refiners, gas stations and other petroleum products dealers/manufacturers.

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Source: ERFC; Monthly data through September 2014 preliminary activity

Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

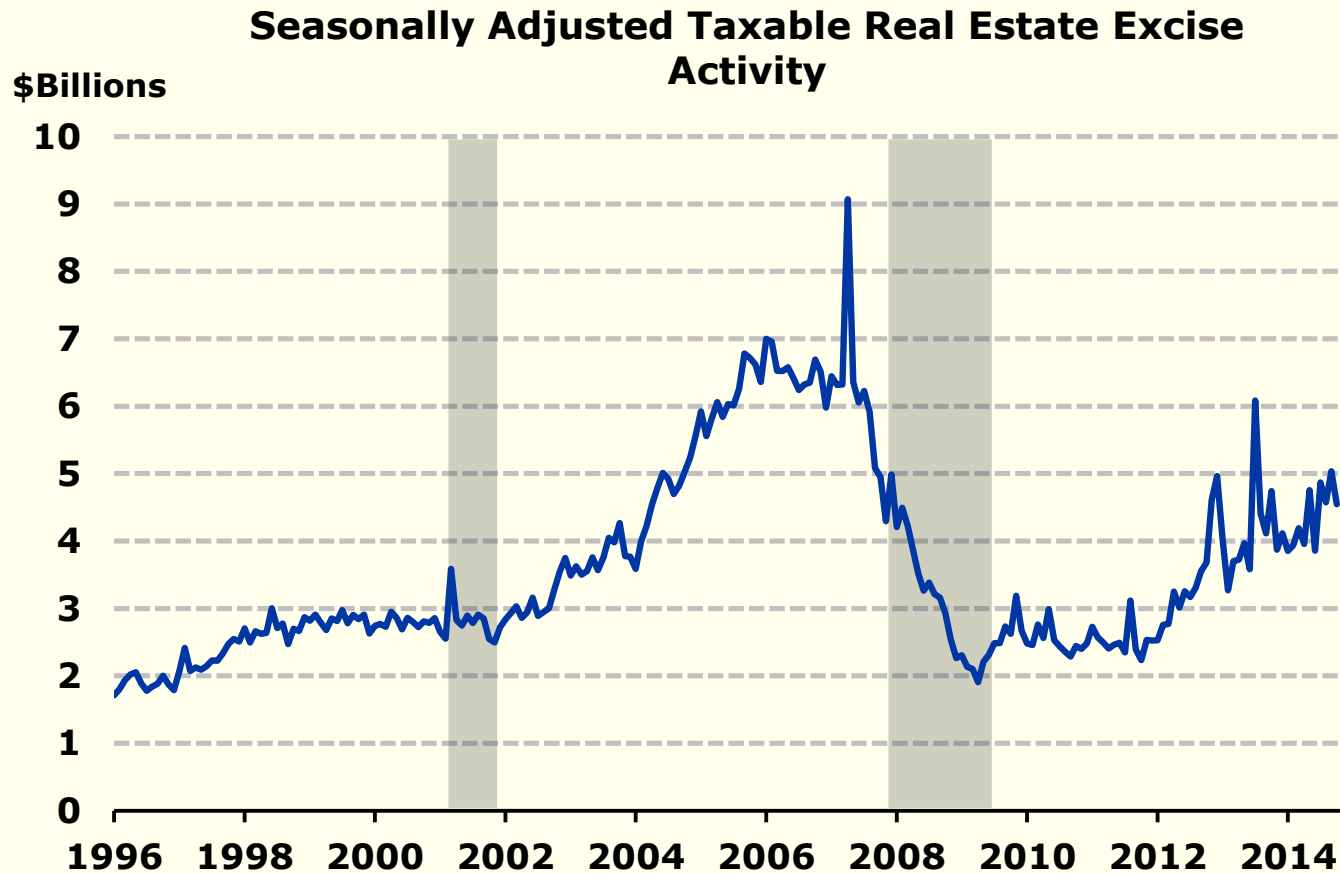
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REET activity continues to be elevated by large commercial sales

Sales transactions are down year over year but the value per transaction is higher due to the proportion of large commercial sales

Sales of property worth \$10 million or more totaled \$1.4 billion in the last two months

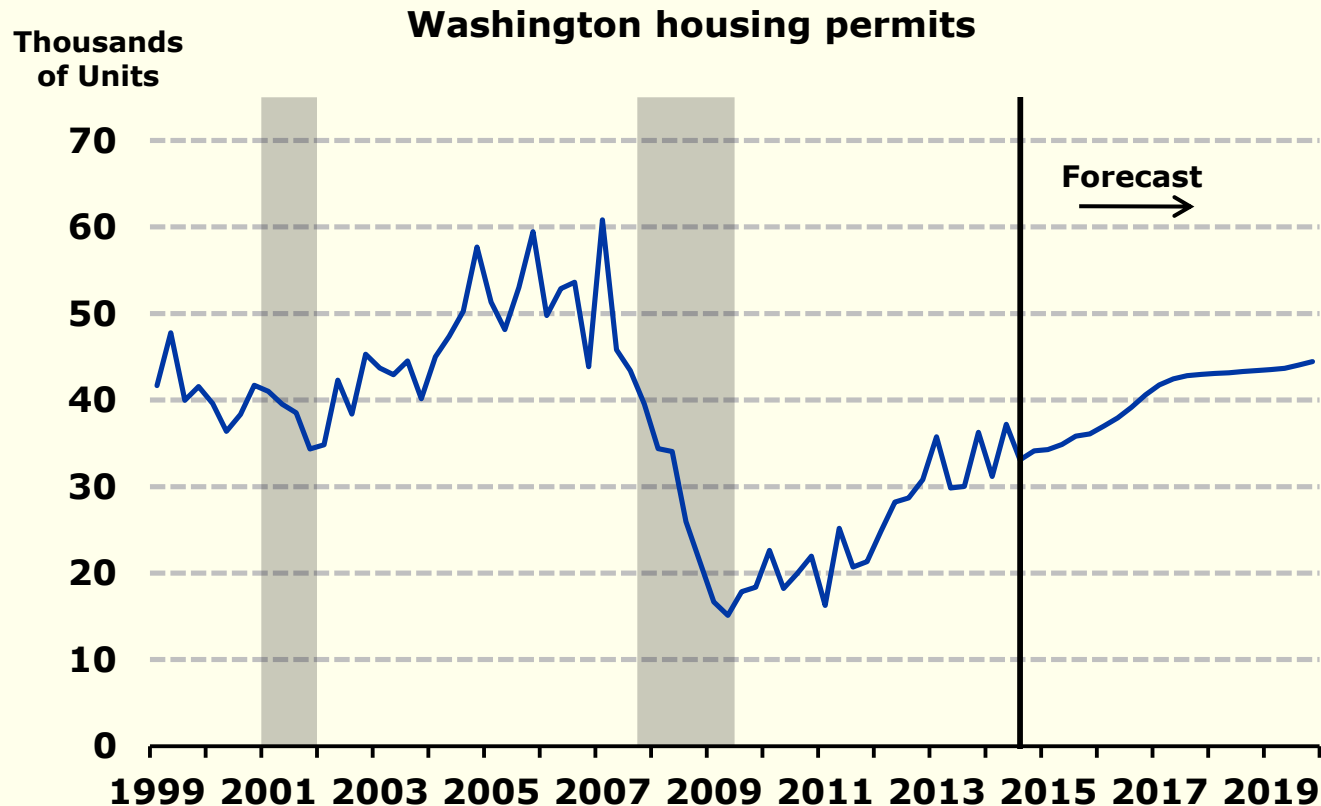


Source: ERFC; Monthly data through October 2014 preliminary

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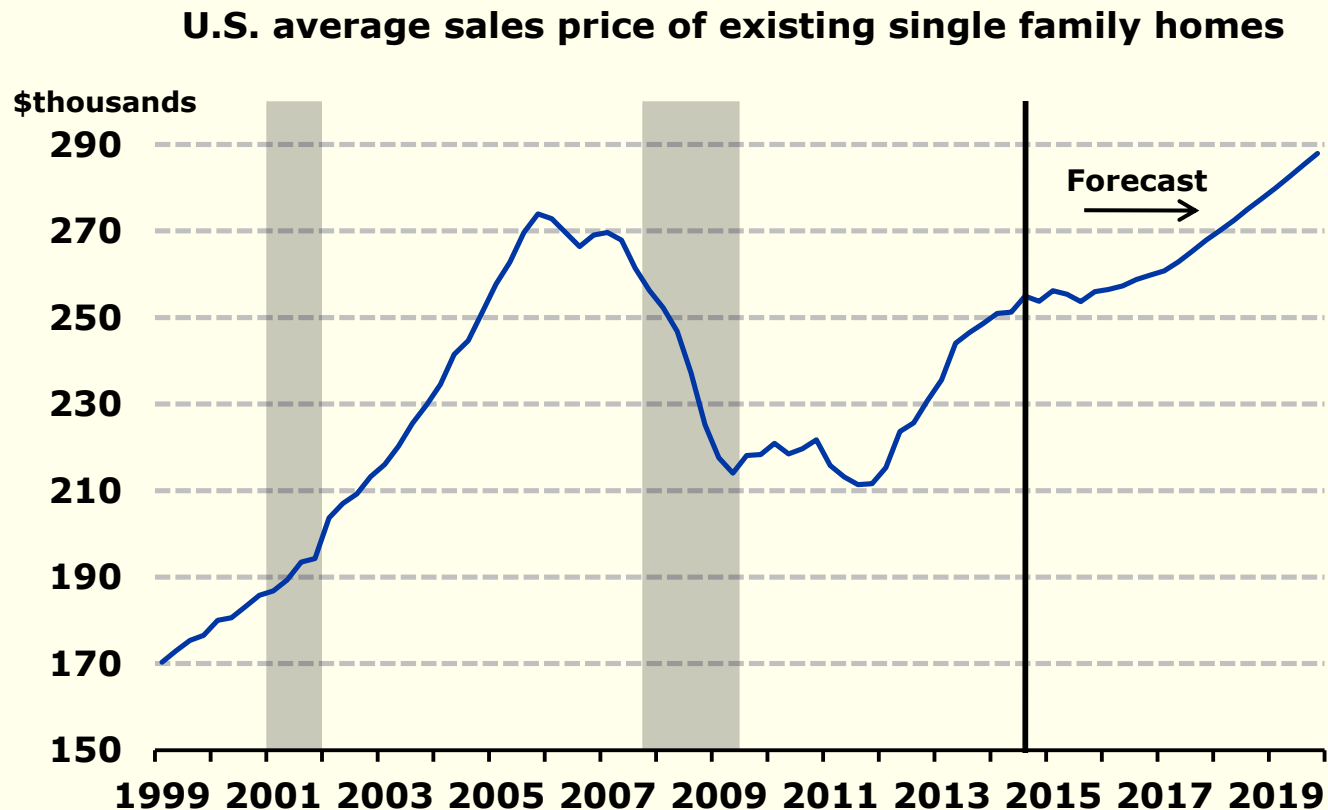


WA housing permits forecasted to approach “normal” levels in 2017





Sales prices of existing U.S. homes are forecasted to flatten for several quarters

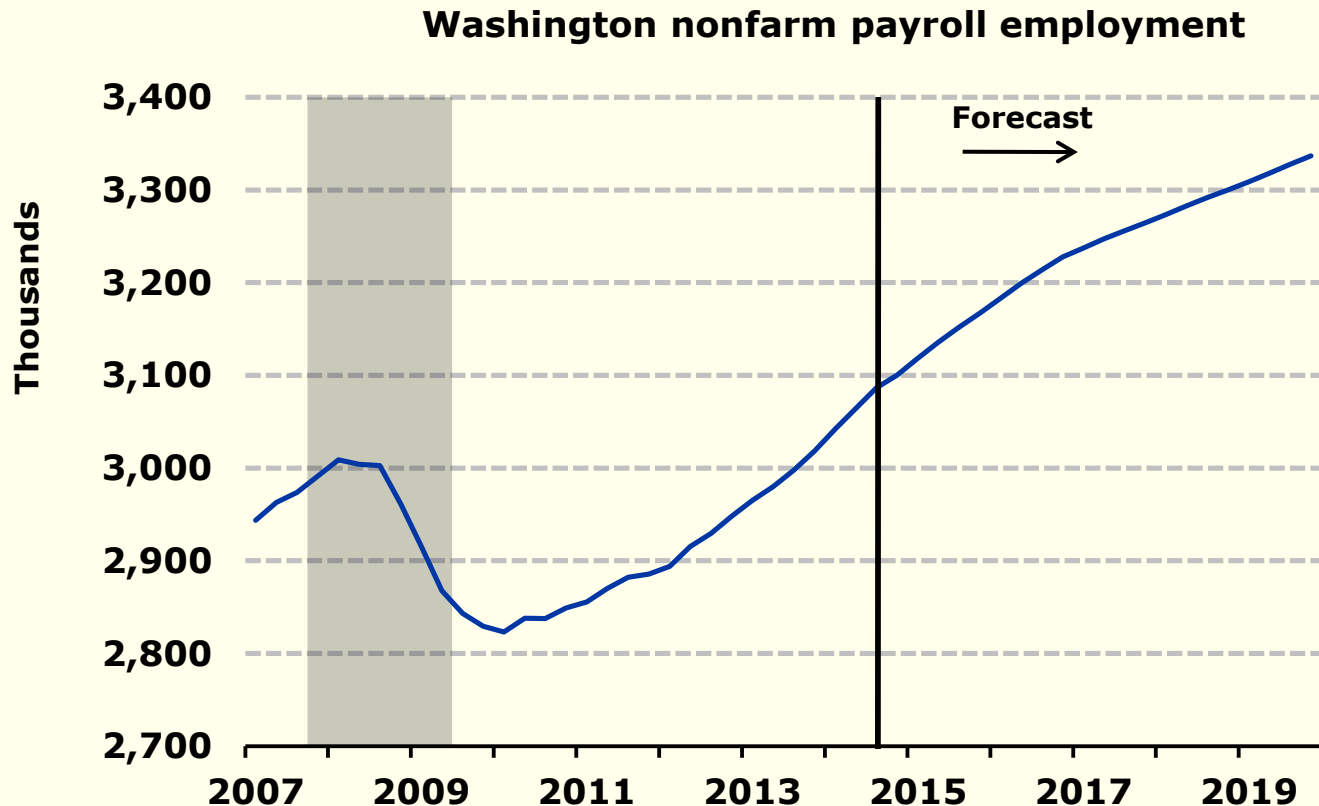




Washington employment growth forecasted to slow

Average employment growth for 2014 to 2019 is forecasted at 1.8%

Growth from 2011Q2 to 2014Q3 averaged 2.3% (SAAR)

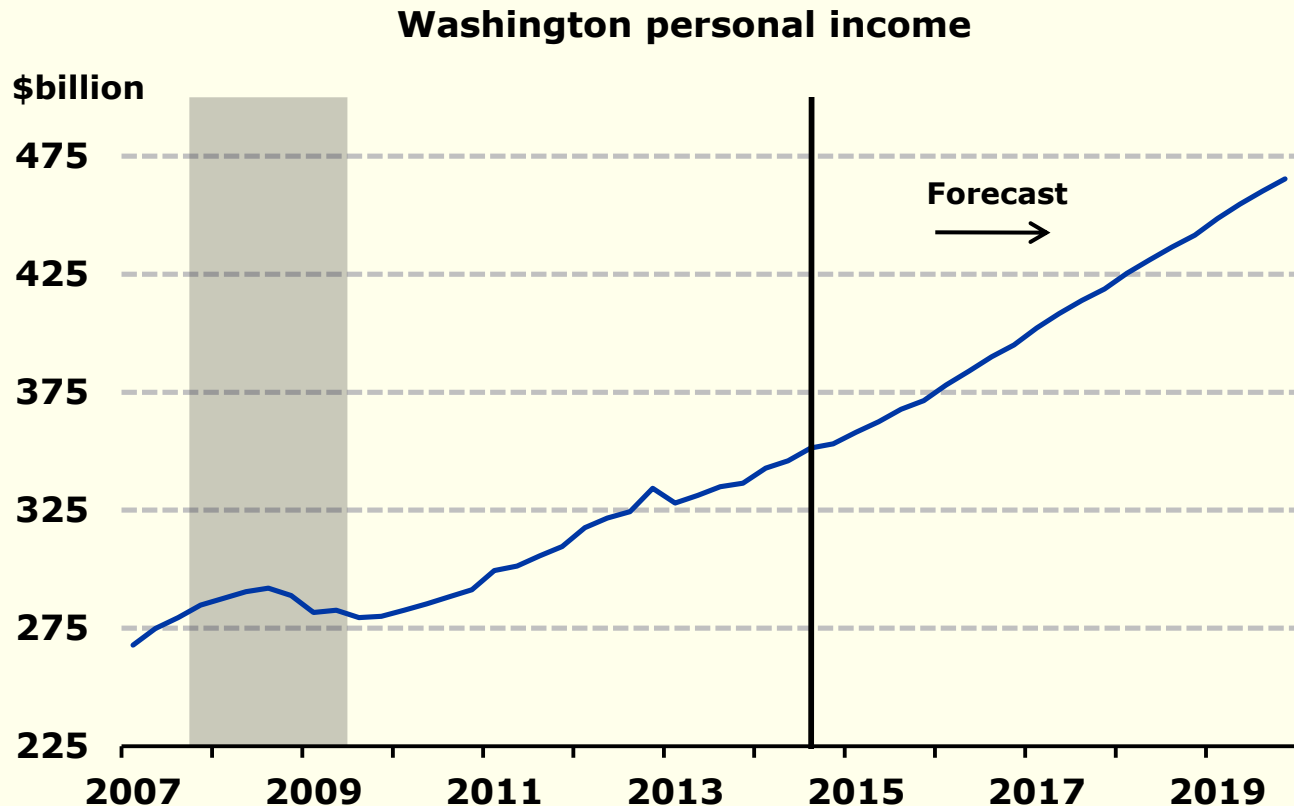


Source: ERFC November 2014 forecast; historical data through 2014Q3



Forecasted Washington personal income growth is steady

Average income growth for 2014 to 2019 is forecasted at 5.6%

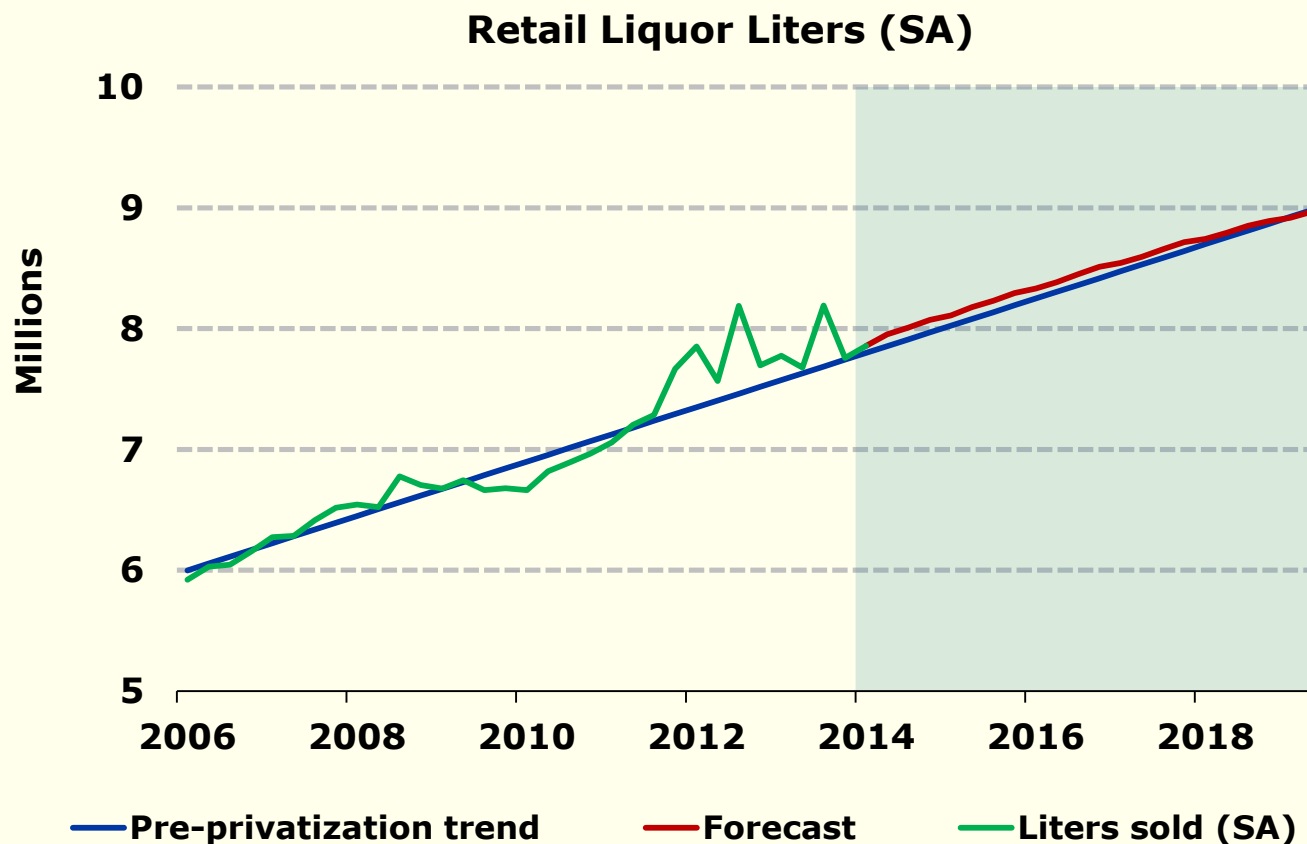


Source: ERFC November 2014 forecast; historical data through 2014Q3

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The surge from liquor privatization is over

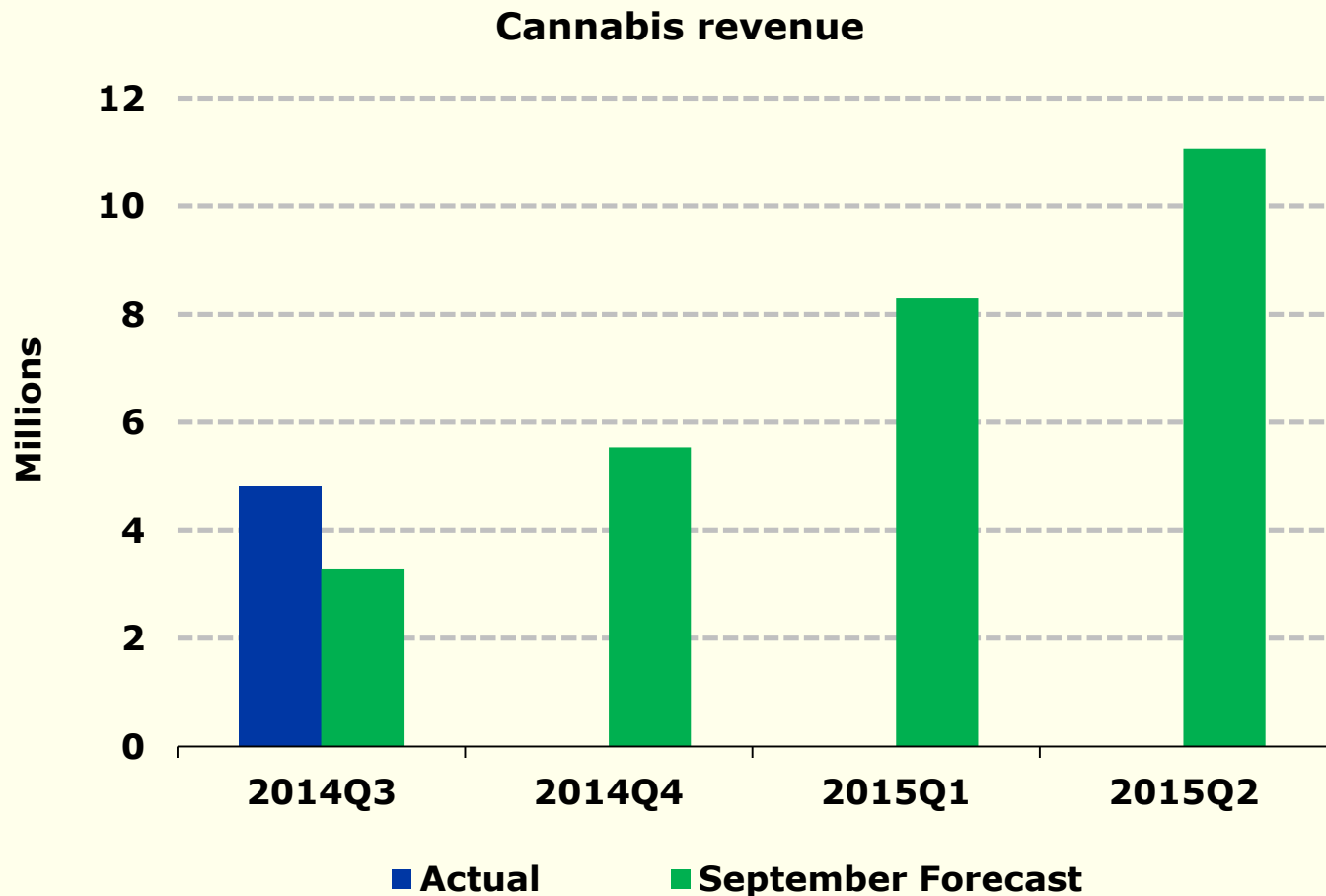


Source: DOR, ERFC November 2014 forecast; historical data through 2013 Q3

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Cannabis revenue is above forecast, but still needs to pick up



Source: LCB, ERFC September 2014 forecast; historical data through 2013 Q3

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The number of cannabis establishments continues to grow

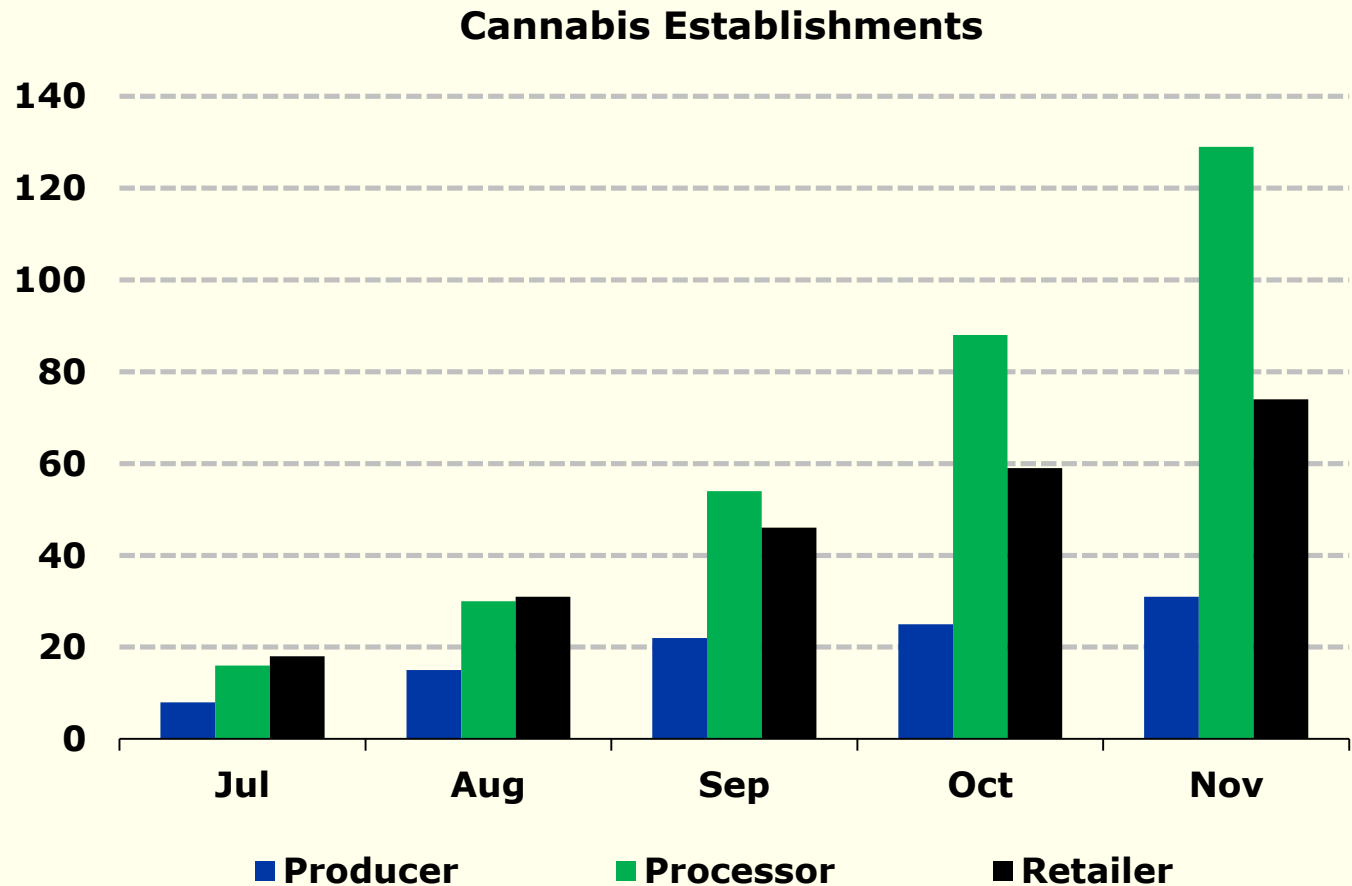
26% of
Producers are
also Processors

Growth in
Establishments:
(July to
November)

Producer
8 to 31

Processor
16 to 129

Retail
18 to 74



Source: LCB, ERFC; data through November 2014

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GF-S cannabis revenue estimates

Total change
from
September
forecast:

•2013-15
+\$17.3 M

•2015-17
+\$29.6 M

•2017-19
+\$10.6 M

\$Millions

November Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$5.7	\$36.1	\$64.9
Retail sales tax and B&O	\$5.2	\$32.0	\$56.6
Total General Fund	\$10.9	\$68.1	\$121.5
Total Non-GF	\$31.8	\$168.4	\$293.5

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



2013-15 Biennium alternative forecasts – cash basis

\$Millions	2013-15 Biennium	Difference From the baseline
November Baseline (55%)	\$33,440	
<u>November 2014 Alternative Forecasts</u>		
Optimistic (20%)	\$34,110	\$670
Pessimistic (25%)	\$32,638	(\$802)
Probability Weighted Average	\$33,373	(\$66)
GCEA*	\$33,445	\$6

*Based on the Governor's Council of Economic Advisors' assumptions

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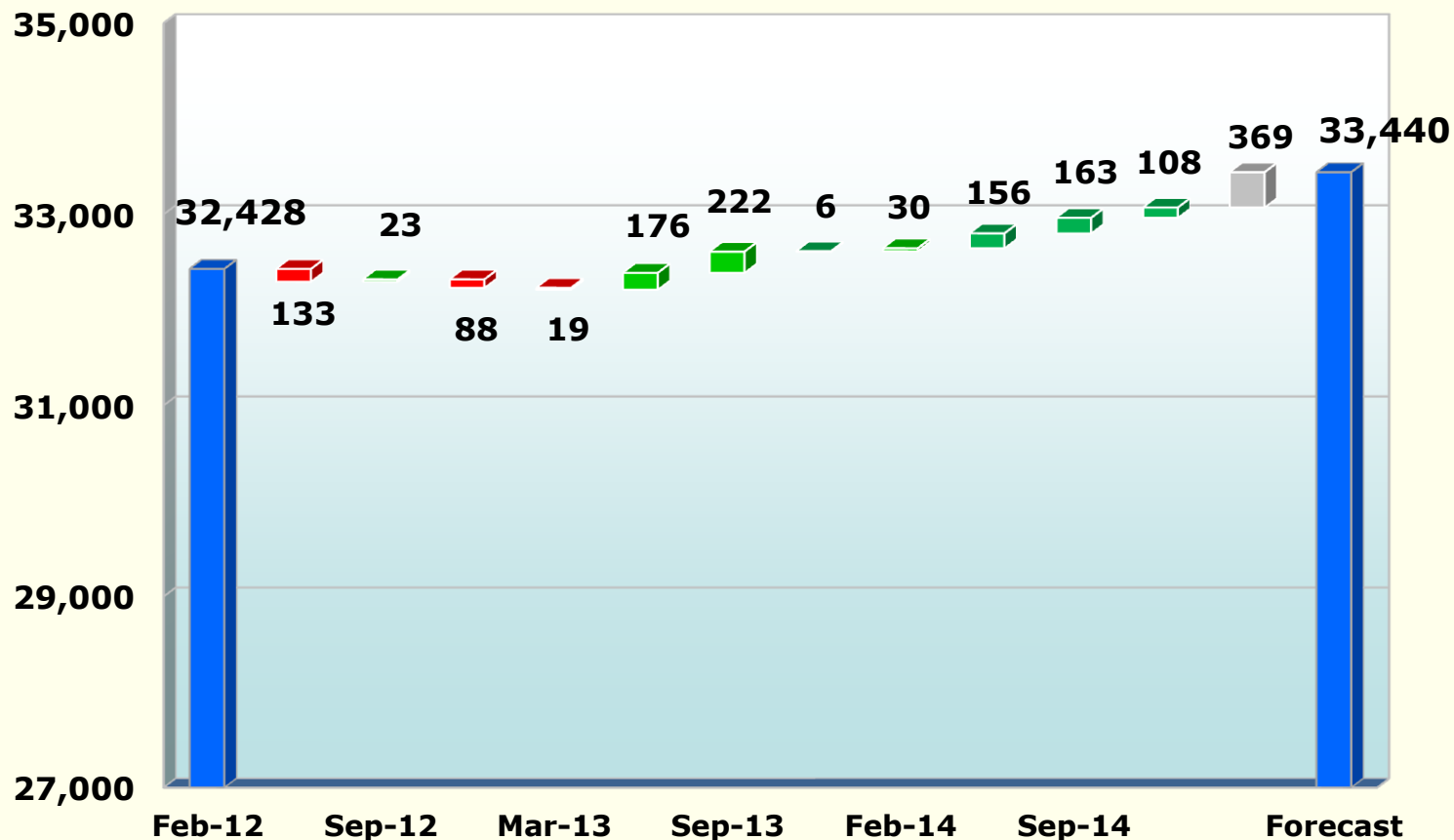
GF-S forecast revisions to the 2013-15 biennium

The GF-S forecast for the 2013-15 biennium has increased by \$655 million (2.0%) since the June 2013 forecast that was the basis of the initial biennial budget (not including the \$123 million in revenue-generating legislation that accompanied the budget)

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\$Millions



Source: ERFC February 2012 – November 2014 forecasts
Gray area indicates total noneconomic change

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2015-17 Biennium alternative forecasts – cash basis

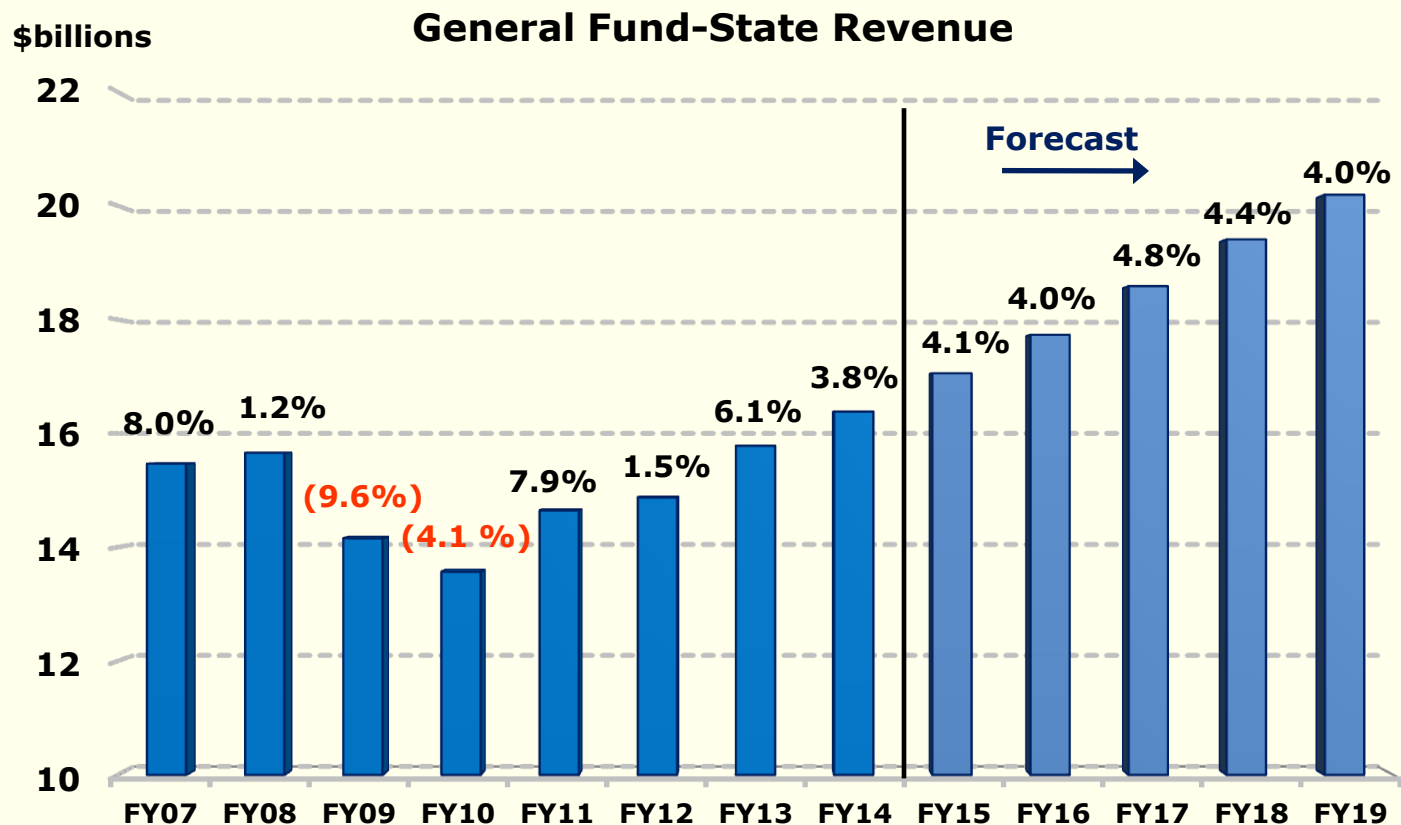
\$Millions	2015-17 Biennium	Difference From the baseline
November Baseline (55%)	\$36,319	
<u>November 2014 Alternative Forecasts</u>		
Optimistic (20%)	\$39,353	\$3,033
Pessimistic (25%)	\$32,982	(\$3,336)
Probability Weighted Average	\$36,092	(\$227)
GCEA*	\$36,229	(\$91)



General Fund-State* forecast by fiscal year

Biennial growth rates:

2007-09A: 0.1%
2009-11A: (5.4%)
2011-13A: 8.6%
2013-15F: 9.1%
2015-17F: 8.6%
2017-19F: 9.0%



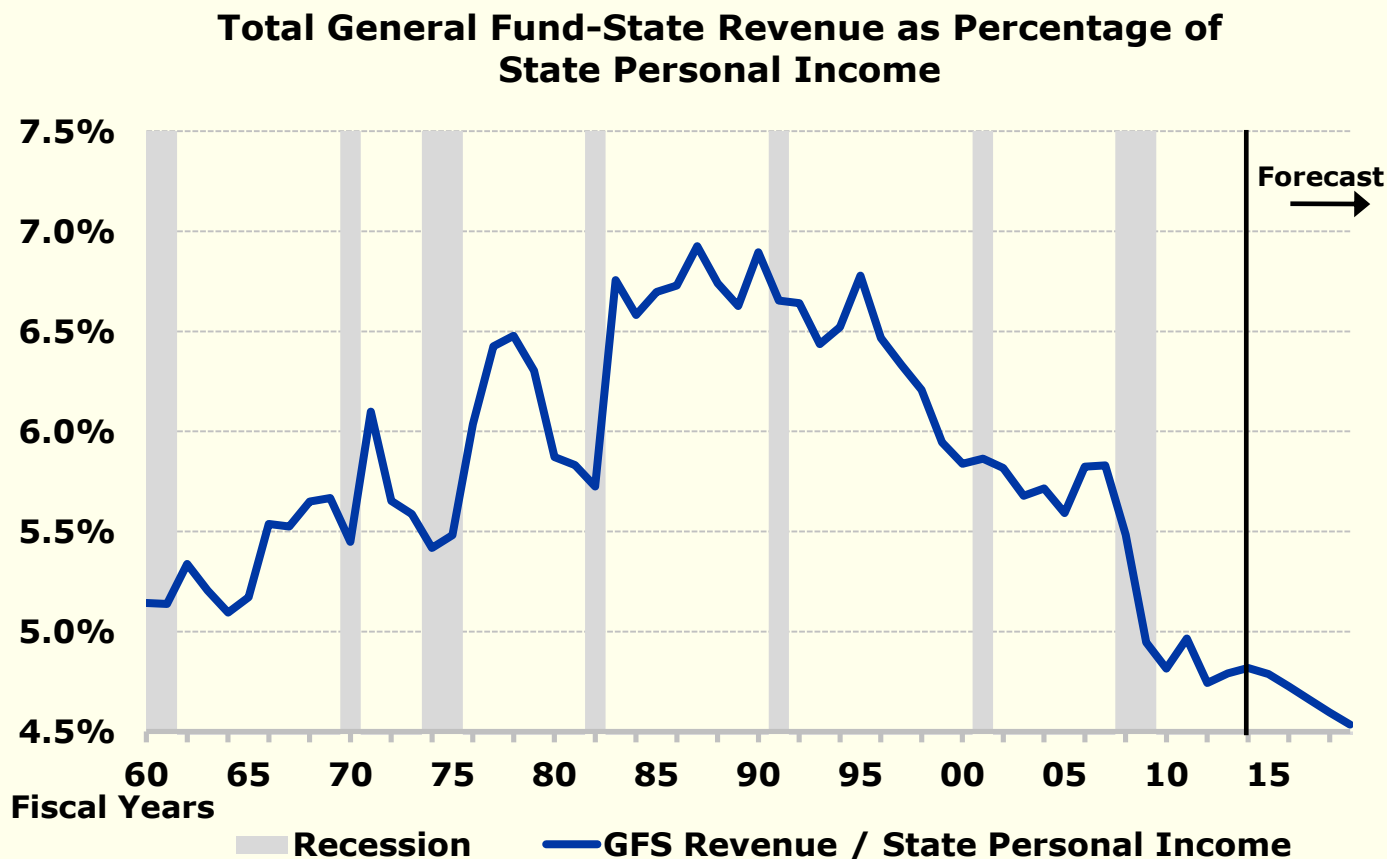
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*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-19
Source: ERFC forecast, November 2014

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GF-S revenue as share of personal income forecasted to reach record low





Real per capita General Fund-State* forecast by fiscal year

Biennial growth rates:

2007-09A: (6.9%)

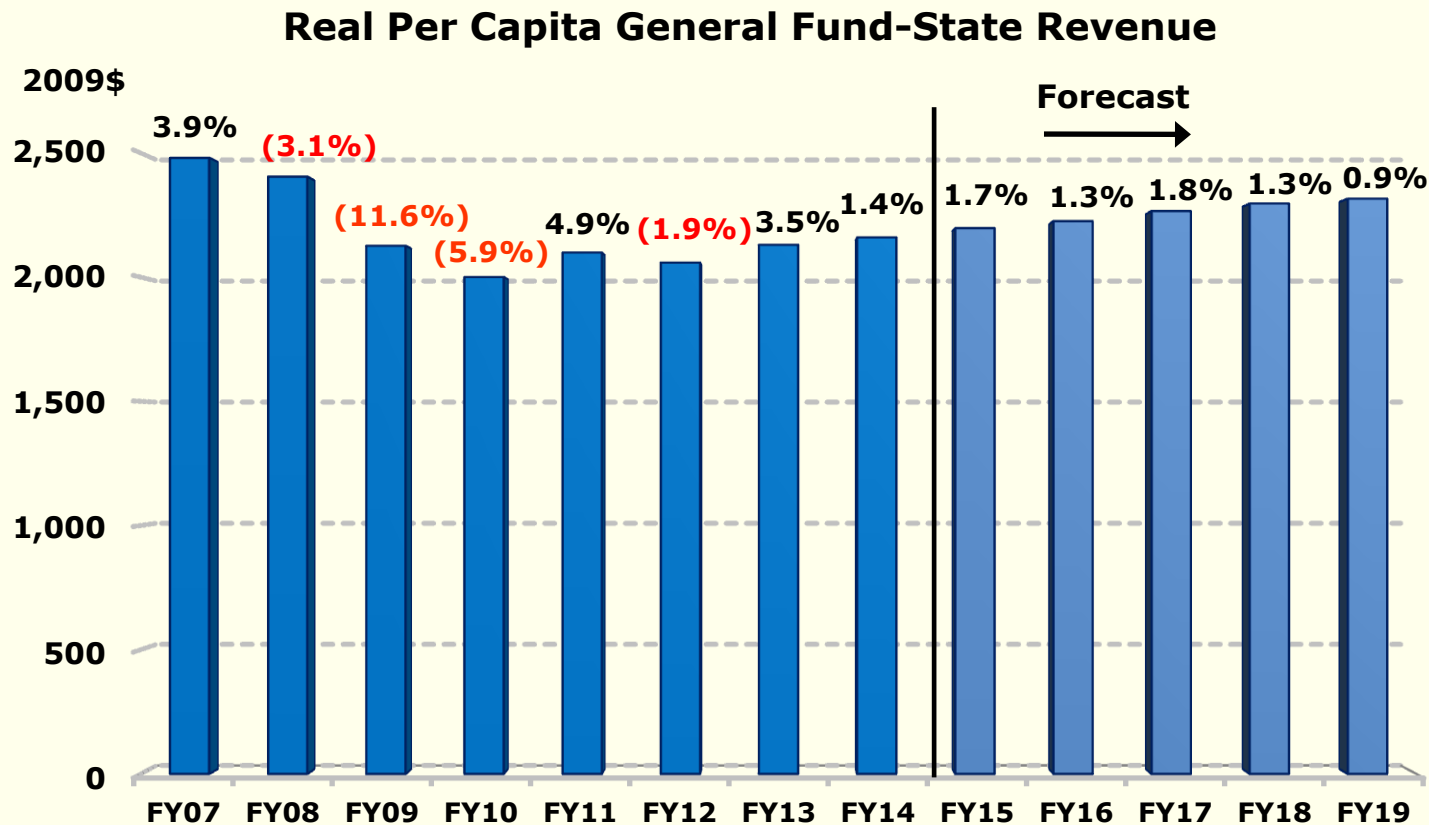
2009-11A: (9.5%)

2011-13A: 2.2%

2013-15F: 4.0%

2015-17F: 3.1%

2017-19F: 2.7%



*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-19
Source: ERFC forecast, November 2014

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Conclusion

- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- The level of uncertainty in the baseline remains high, with greater risks on the downside than on the upside



Questions



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